UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

☑ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Fiscal Year Ended December 31, 2020

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Transition period from _____ to _____

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Arkansas	71-0682831
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
719 Harkrider, Suite 100, Conway, Arkansas	72032
(Address of principal executive offices)	(Zip Code)

(501) 339-2929

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	HOMB	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the registrant's common stock, par value $0.01 per share, held by non-affiliates on June 30, 2020, was $2.33 billion based upon the last trade price as reported on the NASDAQ Global Select Market of $15.38.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practical date.

Common Stock Issued and Outstanding: 165,397,678 shares as of February 25, 2021.

Documents incorporated by reference: Part III is incorporated by reference from the registrant's Proxy Statement relating to its 2021 Annual Meeting to be held on April 15, 2021.

HOME BANCSHARES, INC.
FORM 10-K
December 31, 2020

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of our statements contained in this document, including matters discussed under the caption “Management's Discussion and Analysis of Financial Condition and Results of Operation,” are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements relate to future events or our future financial performance and include statements about the competitiveness of the banking industry, potential regulatory obligations, our entrance and expansion into other markets, including through potential acquisitions, our other business strategies and other statements that are not historical facts. Forward-looking statements are not guarantees of performance or results. When we use words like “may,” “plan,” “contemplate,” “anticipate,” “believe,” “intend,” “continue,” “expect,” “project,” “predict,” “estimate,” “could,” “should,” “would,” and similar expressions, you should consider them as identifying forward-looking statements, although we may use other phrasing. These forward-looking statements involve risks and uncertainties and are based on our beliefs and assumptions, and on the information available to us at the time that these disclosures were prepared. These forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors, including, but not limited to, the following:

- the effects of future local, regional, national and international economic conditions, including inflation or a decrease in commercial real estate and residential housing values;
- changes in the level of nonperforming assets and charge-offs, and credit risk generally;
- the risks of changes in interest rates or the level and composition of deposits, loan demand and the values of loan collateral, securities and interest-sensitive assets and liabilities;
- disruptions, uncertainties and related effects on our business and operations as a result of the ongoing COVID-19 pandemic and measures that have been or may be implemented or imposed in response to the pandemic, including the impact on, among other things, credit quality and liquidity;
- the effect of any mergers, acquisitions or other transactions to which we or our bank subsidiary may from time to time be a party, including our ability to successfully integrate any businesses that we acquire;
- the risk that expected cost savings and other benefits from acquisitions may not be fully realized or may take longer to realize than expected;
- the possibility that an acquisition does not close when expected or at all because required regulatory, shareholder or other approvals and other conditions to closing are not received or satisfied on a timely basis or at all;
- the reaction to a proposed acquisition transaction of the respective companies’ customers, employees and counterparties;
- diversion of management time on acquisition-related issues;
- the ability to enter into and/or close additional acquisitions;
- the availability of and access to capital on terms acceptable to us;
- increased regulatory requirements and supervision that applies as a result of our exceeding $10 billion in total assets;
- legislation and regulation affecting the financial services industry as a whole, and the Company and its subsidiaries in particular, including the effects resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), recent reforms to the Dodd-Frank Act, legislation and regulations in response to the COVID-19 pandemic and other future legislative and regulatory changes;
- changes in governmental monetary and fiscal policies;
- the effects of terrorism and efforts to combat it;
- political instability;

- risks associated with our customer relationship with the Cuban government and our correspondent banking relationship with Banco Internacional de Comercio, S.A. (BICSA), a Cuban commercial bank;
- adverse weather events, including hurricanes, and other natural disasters;
- the ability to keep pace with technological changes, including changes regarding cybersecurity;
- an increase in the incidence or severity of fraud, illegal payments, cybersecurity breaches or other illegal acts impacting our bank subsidiary, our vendors or our customers;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with competitors offering banking products and services by mail, telephone and the Internet;
- potential claims, expenses and other adverse effects related to current or future litigation, regulatory examinations or other government actions;
- the effect of changes in accounting policies and practices and auditing requirements, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters, including the adoption of the current expected credit loss (CECL) model on January 1, 2020;
- higher defaults on our loan portfolio than we expect; and
- the failure of assumptions underlying the establishment of our allowance for credit losses or changes in our estimate of the adequacy of the allowance for credit losses.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see “Risk Factors.”

PART I

Item 1. BUSINESS

Company Overview

Home BancShares, Inc. (“Home BancShares”, which may also be referred to in this document as “we,” “us,” “HBI” or the “Company”) is a Conway, Arkansas headquartered bank holding company registered under the federal Bank Holding Company Act of 1956. The Company’s common stock is traded through the NASDAQ Global Select Market under the symbol “HOMB.” We are primarily engaged in providing a broad range of commercial and retail banking and related financial services to businesses, real estate developers and investors, individuals and municipalities through our wholly owned community bank subsidiary – Centennial Bank. Centennial Bank has branch locations in Arkansas, Florida, South Alabama and New York City. Although the Company has a diversified loan portfolio, at December 31, 2020 and 2019, commercial real estate loans represented 54.4% and 57.8% of gross loans and 234.3% and 250.0% of total stockholders’ equity, respectively. The Company’s total assets, total deposits, total revenue and net income for each of the past three years are as follows:

	As of or for the Years Ended December 31,		
	2020	2019	2018
	(In thousands)		
Total assets	$ 16,398,804	$ 15,032,047	$ 15,302,438
Total deposits	12,725,790	11,278,383	10,899,778
Total revenue (net interest income plus non-interest income)	694,341	662,733	663,845
Net income	214,448	289,539	300,403

Home BancShares acquires, organizes and invests in community banks that serve attractive markets. Our community banking team is built around experienced bankers with strong local relationships. The Company was formed in 1998 by an investor group led by John W. Allison, our Chairman, and Robert H. “Bunny” Adcock, Jr., one of our directors. Since opening our first subsidiary bank in 1999, we have acquired and integrated a total of 22 banks with locations in Arkansas, Florida and Alabama, including 17 banks since 2010, seven of which we acquired through Federal Deposit Insurance Corporation (“FDIC”) assisted transactions. Our subsidiary bank has operated under a single charter and the Centennial Bank name since 2009. In 2015, after acquiring a pool of national commercial real estate loans, we created Centennial Commercial Finance Group (“Centennial CFG”) to build out a national lending platform focused on commercial real estate as well as commercial and industrial loans. Centennial CFG operates out of our New York City branch office and loan production offices in Los Angeles, California, Dallas, Texas and Miami, Florida. On June 30, 2018, we acquired Shore Premier Finance (“SPF”), a marine-lending division of Union Bank & Trust of Richmond, Virginia, and established the SPF division of Centennial Bank to build out a lending platform focusing on commercial and consumer marine loans. On February 29, 2020, we acquired LH-Finance, the marine lending division of People’s United Bank, N.A. of Bridgeport, Connecticut, and consolidated LH-Finance and its loan portfolio with our SPF division. The SPF division operates out of loan production offices in Chesapeake, Virginia and Baltimore, Maryland.

Acquisitions

We believe many individuals and businesses prefer banking with a locally managed community bank capable of providing flexibility and quick decisions. The execution of our community banking strategy has allowed us to rapidly build our network of banking operations through acquisitions. The following summary provides additional details concerning our acquisitions during the previous five fiscal years.

Giant Holdings, Inc. – On February 23, 2017, the Company acquired Giant Holdings, Inc. (“GHI”), parent company of Landmark Bank, N.A. (“Landmark”), pursuant to a definitive agreement and plan of merger whereby GHI merged with and into HBI and, immediately thereafter, Landmark merged with and into Centennial Bank. The Company paid a purchase price to the GHI shareholders of approximately $96.0 million for the GHI acquisition. Under the terms of the agreement, shareholders of GHI received 2,738,038 shares of the Company’s common stock valued at approximately $77.5 million as of February 23, 2017, plus approximately $18.5 million in cash in exchange for all outstanding shares of GHI common stock.

GHI formerly operated six branch locations in the Ft. Lauderdale, Florida area. Including the effects of the purchase accounting adjustments, as of acquisition date, GHI had approximately $398.1 million in total assets, $327.8 million in loans after $8.1 million of loan discounts, and $304.0 million in deposits.

The Bank of Commerce – On February 28, 2017, the Company purchased all of the issued and outstanding shares of common stock of The Bank of Commerce, a Florida state-chartered bank that operated in the Sarasota, Florida area ("BOC"), pursuant to an acquisition agreement, dated December 1, 2016, by and between HBI and Bank of Commerce Holdings, Inc. ("BCHI"), parent company of BOC. The Company merged BOC with and into Centennial Bank effective as of the close of business on February 28, 2017.

The acquisition of BOC was conducted in accordance with the provisions of Section 363 of the United States Bankruptcy Code pursuant to a voluntary petition for relief under Chapter 11 of the Bankruptcy Code filed by BCHI with the United States Bankruptcy Court for the Middle District of Florida (the "Bankruptcy Court"). The sale of BOC by BCHI was subject to certain bidding procedures approved by the Bankruptcy Court, under which the Company was deemed to be the successful bidder.

Under the terms of the acquisition agreement, the Company paid an aggregate of approximately $4.2 million in cash for the acquisition, which included the purchase of all outstanding shares of BOC common stock, the discounted purchase of certain subordinated debentures issued by BOC from the existing holders of the subordinated debentures, and an expense reimbursement to BCHI for approved administrative claims in connection with the bankruptcy proceeding.

BOC formerly operated three branch locations in the Sarasota, Florida area. Including the effects of the purchase accounting adjustments, as of acquisition date, BOC had approximately $178.1 million in total assets, $118.5 million in loans after $5.8 million of loan discounts, and $139.8 million in deposits.

Stonegate Bank – On September 26, 2017, the Company acquired all of the issued and outstanding shares of common stock of Stonegate Bank ("Stonegate"), and merged Stonegate into Centennial Bank. The Company paid a purchase price to the Stonegate shareholders of approximately $792.4 million for the Stonegate acquisition. Under the terms of the merger agreement, shareholders of Stonegate received 30,863,658 shares of HBI common stock valued at approximately $742.3 million at the time of closing plus approximately $50.1 million in cash in exchange for all outstanding shares of Stonegate common stock. In addition, the holders of outstanding stock options of Stonegate received approximately $27.6 million in cash in connection with the cancellation of their options immediately before the acquisition closed, for a total transaction value of approximately $820.0 million.

Including the effects of the purchase accounting adjustments, as of acquisition date, Stonegate had approximately $2.89 billion in total assets, $2.37 billion in loans and $2.53 billion in customer deposits. Stonegate formerly operated its banking business from 24 locations in key Florida markets with significant presence in Broward and Sarasota counties.

Shore Premier Finance – On June 30, 2018, the Company acquired Shore Premier Finance ("SPF"), a division of Union Bank & Trust of Richmond, Virginia, the bank subsidiary of Union Bankshares Corporation. The Company paid a purchase price of approximately $377.4 million in cash, subject to certain post-closing adjustments, and 1,250,000 shares of HBI common stock valued at approximately $28.2 million at the time of the acquisition. SPF provides direct consumer financing for United States Coast Guard ("USCG") registered high-end sail and power boats. Additionally, SPF provides inventory floor plan lines of credit to marine dealers, primarily those selling USCG documented vessels.

Including the purchase accounting adjustments, as of acquisition date, SPF had approximately $377.0 million in total assets, including $376.2 million in total loans, which resulted in goodwill of $30.5 million being recorded.

This portfolio of loans is now housed in a division of Centennial Bank known as Shore Premier Finance. The SPF division of Centennial Bank is responsible for servicing the acquired loan portfolio and originating new loan production. In connection with this acquisition, Centennial Bank opened a new loan production office in Chesapeake, Virginia, to house the SPF division. Through the SPF division, Centennial Bank is working to build out a lending platform focusing on commercial and consumer marine loans.

LH-Finance – On February 29, 2020, the Company completed the acquisition of LH-Finance, the marine lending division of People's United Bank, N.A., for a cash purchase price of approximately $421.2 million. Like SPF, LH-Finance provides direct consumer financing for USCG registered high-end sail and power boats, as well as inventory floor plan lines of credit to marine dealers, primarily those selling USCG documented vessels.

Including the purchase accounting adjustments, as of the acquisition date, LH-Finance had approximately $409.1 million in total assets, including $407.4 million in total loans, which resulted in goodwill of $14.6 million being recorded.

The acquired portfolio of loans is now housed in our SPF division. The SPF division is responsible for servicing the acquired loan portfolio and originating new loan production. In connection with this acquisition, we opened a new loan production office in Baltimore, Maryland.

For an additional discussion regarding the acquisitions of LH-Finance and SPF, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 "Business Combinations" in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for the year ended December 31, 2020. For an additional discussion regarding the acquisitions of BOC, GHI and Stonegate, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 "Business Combinations" in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2019.

Our Management Team

The following table sets forth, as of December 31, 2020, information concerning the individuals who are our executive officers.

Name	**Age**	**Positions Held with Home BancShares, Inc.**	**Positions Held with Centennial Bank**
John W. Allison	74	Chairman of the Board, Chief Executive Officer and President	Director
Brian S. Davis	55	Chief Financial Officer, Treasurer and Director	Chief Financial Officer, Treasurer and Director
Jennifer C. Floyd	46	Chief Accounting Officer	Chief Accounting Officer
Kevin D. Hester	57	Chief Lending Officer	Chief Lending Officer and Director
J. Stephen Tipton	39	Chief Operating Officer	Chief Operating Officer
Tracy M. French	59	Director and Executive Officer	Chairman of the Board, Chief Executive Officer and President
Donna J. Townsell	50	Senior Executive Vice President, Director of Investor Relations and Director	Senior Executive Vice President and Director
Russell D. Carter, III	45	Executive Officer	Regional President

Our Growth Strategy

Our goals are to achieve growth in earnings per share and to create and build stockholder value. Our growth strategy entails the following:

- *Strategic acquisitions* – Strategic acquisitions (both FDIC-assisted and non-FDIC-assisted) have been a significant component of our historical growth strategy, and we believe properly priced bank acquisitions can continue to be a large part of our growth strategy. We anticipate that our principal acquisition focus will continue to be to expand our presence in Arkansas, Florida and Alabama and into other contiguous markets, although we may seek to expand into other areas if attractive financial opportunities in other market areas arise. We will continue to evaluate potential bank acquisition opportunities to determine whether they are in the best interests of our Company. Our goals in making these decisions are to maximize the return to our shareholders and to enhance our franchise.

- *Organic growth* – We believe our current branch network provides us with the capacity to grow within our existing market areas. We also believe we are well positioned to attract new business and additional experienced personnel as a result of ongoing changes in our competitive markets. We believe the markets we entered into as a result of historical acquisitions provide us opportunities for organic growth as we now have a presence in several large markets where our market share has not previously been significant. Through our Centennial CFG franchise, we are continuing to build out a national lending platform that focuses on commercial real estate plus commercial and industrial loans. Additionally, through our SPF division, we are continuing to build a lending platform focusing on commercial and consumer marine loans. As opportunities arise, we will evaluate new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas. We did not open any *de novo* branch locations during 2020. We will continue to evaluate *de novo* opportunities during 2021 and make decisions on a case-by-case basis in the best interest of the shareholders.

Community Banking Philosophy

Our community banking philosophy consists of four basic principles:

- manage our community banking franchise with experienced bankers and community bank boards who are empowered to make customer-related decisions quickly;

- provide exceptional service and develop strong customer relationships;

- pursue the business relationships of our local boards of directors, executive officers, stockholders, and customers to actively promote our community bank; and

- maintain our commitment to the communities we serve by supporting civic and nonprofit organizations.

These principles, which make up our community banking philosophy, are the driving force for our business. As we streamlined our legacy business into an efficient banking network and have integrated new acquisitions, we have preserved lending authority with local management in most cases by using local loan committees that maintain an integral connection to the communities we serve. These committees are empowered with lending authority of up to $6.0 million in their respective geographic areas. This allows us to capitalize on the strong relationships that these individuals and our local bank officers have in their respective communities to maintain and grow our business. Through experienced and empowered local bankers and board members, we are committed to maintaining a community banking experience for our customers.

Operating Goals

Our operating goals focus on maintaining strong credit quality, increasing profitability, finding experienced bankers, and maintaining a "fortress" balance sheet:

- *Maintain strong credit quality* – Credit quality is our first priority. We employ a set of credit standards designed to ensure the proper management of credit risk. Our management team plays an active role in monitoring compliance with these credit standards in the different communities served by Centennial Bank. We have a centralized loan review process, which we believe enables us to take prompt action on potential problem loans. We have historically taken an aggressive approach to resolving problem loans, including those problem loans acquired in our FDIC-assisted and non-FDIC-assisted acquisitions. We are committed to maintaining high credit quality standards.

- *Continue to improve profitability* – We will continue to strive to improve our profitability and achieve high performance ratios as we continue to utilize the available capacity of branches and employees. We believe our profitability is significantly tied to our focus on our efficiency ratio, and we pride ourselves on operating in a highly efficient manner. To achieve further improvements in operating efficiency, we will continue to focus on increasing revenue from organic loan growth, achieving cost savings from any acquisitions, developing and implementing new efficiency initiatives, further streamlining the processes in our lending and retail operations and improving our purchasing power.

- *Attract and motivate experienced bankers* – We believe a major factor in our success has been our ability to attract and motivate bankers who have experience in and knowledge of their local communities. Historically, our hiring and retaining experienced relationship bankers has been integral to our ability to grow quickly when entering new markets.

- *Maintain a "fortress" balance sheet* – We intend to maintain a strong balance sheet through a focus on four key governing principles: (1) maintain solid asset quality; (2) remain well-capitalized; (3) pursue high performance metrics including return on tangible equity (ROTE), return on assets (ROA), efficiency ratio and net interest margin; and (4) retain liquidity at the bank holding company level that can be utilized should attractive acquisition opportunities be identified or for internal capital needs. We strive to maintain capital levels above the regulatory capital requirements through our focus on these governing principles, which historically has allowed us to take advantage of acquisition opportunities as they become available without the need for additional capital.

Our Market Areas

As of December 31, 2020, we conducted business principally through 77 branches in Arkansas, 78 branches in Florida, five branches in Alabama and one branch in New York City. Our branch footprint includes markets in which we are the deposit market share leader as well as markets where we believe we have opportunities for deposit market share growth. As of December 31, 2020, we also operate loan production offices in Los Angeles, California; Miami, Florida and Dallas, Texas through our Centennial CFG division and in Chesapeake, Virginia and Baltimore, Maryland through our SPF division.

Lending Activities

We originate loans primarily secured by single and multi-family real estate, residential construction and commercial buildings. In addition, we make loans to small and medium-sized commercial businesses as well as to consumers for a variety of purposes.

Our loan portfolio as of December 31, 2020, was comprised as follows:

	Total Loans Receivable	Percentage of portfolio
	(Dollars in thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 4,429,060	39.5%
Construction/land development	1,562,298	13.9
Agricultural	114,431	1.0
Residential real estate loans		
Residential 1-4 family	1,536,257	13.7
Multifamily residential	536,538	4.8
Total real estate	8,178,584	72.9
Consumer	864,690	7.7
Commercial and industrial	1,896,442	16.9
Agricultural	66,869	0.6
Other	214,136	1.9
Total	$ 11,220,721	100.0%

Real Estate – Non-farm/Non-residential. Non-farm/non-residential real estate loans consist primarily of loans secured by income-producing properties, such as shopping/retail centers, hotel/motel properties, office buildings, and industrial/warehouse properties. Commercial lending on income-producing properties typically involves higher loan principal amounts, and the repayment of these loans is dependent, in large part, on sufficient income from the properties collateralizing the loans to cover operating expenses and debt service. This category of loans also includes specialized properties such as churches, marinas, and nursing homes. Additionally, we make commercial mortgage loans to entities to operate in these types of properties, and the repayment of these loans is dependent, in large part, on the cash flow generated by these entities in the operations of the business. Often, a secondary source of repayment will include the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Real Estate – Construction/Land Development. This category of loans includes loans to residential and commercial developers to purchase raw land and to develop this land into residential and commercial land developments. In addition, this category includes construction loans for all of the types of real estate loans, including both commercial and residential. These loans are generally secured by a first lien on the real estate being purchased or developed. Often, the primary source of repayment will be the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Real Estate – Residential. Our residential mortgage loan program primarily originates loans to individuals for the purchase of residential property. We generally do not retain long-term, fixed-rate residential real estate loans in our portfolio due to interest rate and collateral risks. Residential mortgage loans to individuals retained in our loan portfolio primarily consisted of approximately 35.0% owner occupied 1-4 family properties and approximately 53.5% non-owner occupied 1-4 family properties (rental) as of December 31, 2020 with the remaining 11.5% relating to condos and mobile homes. The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. Often, a secondary source of repayment will include the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Consumer. While our focus is on service to small and medium-sized businesses, we also make a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans originated by our bank, the primary portion of which consists of loans to finance USCG registered high-end sail and power boats through our SPF division. The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. The performance of consumer loans will be affected by the local and regional economies as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics. When secured, we may independently assess the value of the collateral using a third-party valuation source.

Commercial and Industrial. Our commercial and industrial loan portfolio primarily consisted of 43.7% unsecured loans, 31.1% inventory/accounts receivable financing, 7.0% equipment/vehicle financing and 18.2% other, including letters of credit at less than 1%, as of December 31, 2020. This category includes loans to smaller business ventures, credit lines for working capital and short-term inventory financing, for example. These loans are typically secured by the assets of the business and are supplemented by personal guaranties of the principals and often mortgages on the principals' primary residences. The primary source of repayment may be conversion of the assets into cash flow, as in inventory and accounts receivable, or may be cash flow generated by operations, as in equipment/vehicle financing. Assessing the value of inventory can involve many factors including, but not limited to, type, age, condition, level of conversion and marketability, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of accounts receivable can involve many factors including, but not limited to, concentration, aging, and industry, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of equipment/vehicles may involve a third-party valuation source, where applicable.

Agricultural Loans. Agricultural loans include loans for financing agricultural production, including loans to businesses or individuals engaged in the production of timber, poultry, livestock or crops and are not categorized as part of real estate loans. Our agricultural loans are generally secured by farm machinery, livestock, crops, vehicles or other agricultural-related collateral. A portion of our portfolio of agricultural loans is comprised of loans to individuals which would normally be characterized as consumer loans except for the fact that the individual borrowers are primarily engaged in the production of timber, poultry, livestock or crops.

Paycheck Protection Program. On March 27, 2020, the CARES Act was passed by Congress and signed into law in response to the initial economic impacts of the COVID-19 pandemic. The CARES Act included an allocation for loans to be issued by financial institutions through the Small Business Administration ("SBA") through a program known as the Paycheck Protection Program ("PPP"). On April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act authorized additional funds under the CARES Act for PPP loans to be issued by financial institutions through the SBA. PPP loans are forgivable, in whole or in part, so long as employee and compensation levels of the borrower are maintained, and the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00% and a term of two years, if not forgiven, in whole or in part. Payments are deferred for the first six months of the loan. The loans are 100% guaranteed by the SBA. The SBA pays the originating bank a processing fee ranging from 1.00% to 5.00%, based on the size of the loan. Our participation in the PPP has been comprised largely of making commercial and industrial loans to qualified borrowers.

Credit Risks. The principal economic risk associated with each category of the loans that we make is the creditworthiness of the borrower and the ability of the borrower to repay the loan. General economic conditions and the strength of the services and retail market segments affect borrower creditworthiness. General factors affecting a commercial borrower's ability to repay include interest rates, inflation and the demand for the commercial borrower's products and services as well as other factors affecting a borrower's customers, suppliers and employees.

Risks associated with real estate loans also include fluctuations in the value of real estate, new job creation trends, tenant vacancy rates, and in the case of commercial borrowers, the quality of the borrower's management. Consumer loan repayments depend upon the borrower's financial stability and are more likely to be adversely affected by divorce, job loss, illness and other personal hardships.

Lending Policies. We have established common loan documentation procedures and policies, based on the type of loan, for our bank subsidiary. The board of directors periodically reviews these policies for validity. In addition, it has been and will continue to be our practice to attempt to independently verify information provided by our borrowers, including assets and income. We have not made loans similar to those commonly referred to as “no doc” or “stated income” loans. We focus on the primary and secondary methods of repayment and prepare global cash flows where appropriate. There are legal restrictions on the dollar amount of loans available for each lending relationship. The Arkansas Banking Code provides that no loan relationship may exceed 20% of a bank’s risk-based capital, and we are in compliance with this restriction. In addition, we are not dependent upon any single lending relationship for an amount exceeding 10% of our revenues. As of December 31, 2020, the maximum amount outstanding to a single borrower was $215.3 million. As primarily a community lender, we believe from time to time it is in our best interest to agree to modifications or restructurings. These modifications/restructurings can take the form of a reduction in interest rate, a move to interest-only from principal and interest payments, or a lengthening in the amortization period or any combination thereof. Occasionally, we will modify/restructure a single loan by splitting it into two loans following the interagency guidance involving the workout of commercial real estate loans. The loan representing the portion that is supported by the current cash flow of the borrower or project will remain on our books, while the new loan representing the portion that cannot be serviced by the current cash flow is charged-off. Furthermore, we may make an additional loan or loans to a borrower or related interest of a borrower who is past due more than 90 days. These circumstances will be very limited in nature, and when approved by the appropriate lending authority, will likely involve obtaining additional collateral that will improve the collectability of the overall relationship. It is our belief that judicious usage of these tools can improve the quality of our loan portfolio by providing our borrowers an improved probability of survival during difficult economic times.

Loan Approval Procedures. Our bank subsidiary has supplemented our common loan policies to establish its loan approval procedures as follows:

- *Individual Authorities.* The board of directors of Centennial Bank establishes the authorization levels for individual loan officers on a case-by-case basis. Generally, the more experienced a loan officer, the higher the authorization level. The approval authority for individual loan officers ranges from $15,000 to $1.0 million for secured loans and from $1,000 to $100,000 for unsecured loans.

- *Officers’ Loan Committees.* Our bank subsidiary also gives its Officers’ Loan Committees loan approval authority. Credits in excess of individual loan limits are submitted to the region’s Officers’ Loan Committee. The Officers’ Loan Committee consists of members of the senior management team of that region and is chaired by that region’s chief lending officer. The regional Officers’ Loan Committees have approval authority of up to $2.0 million secured on all loans and $100,000 unsecured on loan renewals.

- *Directors’ Loan Committee.* Our bank subsidiary has Directors’ Loan Committees (“DLCs”) throughout our market areas consisting of outside directors and senior lenders of the respective market areas. Generally, each DLC requires a majority of outside directors be present to establish a quorum. Generally, this committee is chaired either by the Division Chief Lending Officer or the Regional President. The regional DLCs have approval authority up to $6.0 million secured and $500,000 unsecured.

- *Executive Loan Committee* – The board of directors of Centennial Bank established the Executive Loan Committee consisting of outside board members and members of executive management. This committee requires five voting members to establish a quorum, including at least two of the outside board members, and is chaired by the Chief Lending Officer of the bank. The Executive Loan Committee has approval authority up to the Bank’s legal lending limit, subject to exception approval by the full Board for single loans over $100 million or relationships over $200 million. In addition, any relationship above $20 million must have the specific approval of both the Chairman and our director Richard H. Ashley.

Currently, our board of directors has established an in-house consolidated lending limit of $20.0 million to any one borrowing relationship without obtaining the approval of both our Chairman and our director Richard H. Ashley. We have 114 separate relationships that exceed this in-house limit.

Deposits and Other Sources of Funds

Our principal source of funds for loans and investing in securities is core deposits. We offer a wide range of deposit services, including checking, savings, money market accounts and certificates of deposit. We obtain most of our deposits from individuals and small businesses, and municipalities in our market areas. We believe that the rates we offer for core deposits are competitive with those offered by other financial institutions in our market areas. Additionally, our policy also permits the acceptance of brokered deposits. Secondary sources of funding include advances from the Federal Home Loan Bank of Dallas, the Federal Reserve Bank Discount Window and other borrowings. These secondary sources enable us to borrow funds at rates and terms which, at times, are more beneficial to us.

Other Banking Services

Given customer demand for increased convenience and account access, we offer a range of products and services, including 24-hour internet banking, mobile banking and voice response information, cash management, overdraft protection, direct deposit, safe deposit boxes, United States savings bonds and automatic account transfers. We earn fees for most of these services. We also receive ATM transaction fees from transactions performed by our customers participating in a shared network of automated teller machines and a debit card system that our customers can use throughout the United States, as well as in other countries.

Insurance

Centennial Insurance Agency, Inc. is an independent insurance agency, originally founded in 1959 and purchased by Centennial Bank in 2000. Centennial Insurance Agency writes policies for commercial and personal lines of business including insurance for property, casualty, life, health and employee benefits. It is subject to regulation by the Arkansas Insurance Department. The offices of Centennial Insurance Agency are currently located in Jacksonville, Cabot and Conway, Arkansas.

Cook Insurance Agency, Inc. is an independent insurance agency, originally founded in 1913 and acquired by Centennial Bank in 2010 during our FDIC-assisted acquisition of Gulf State Community Bank. Cook Insurance Agency writes policies for commercial and personal lines of business including life insurance. It is subject to regulation by the Florida Insurance Department. The offices of Cook Insurance Agency are located in Apalachicola and Crawfordville, Florida.

Competition

As of December 31, 2020, we conducted business through 161 branches in our primary market areas of Pulaski, Faulkner, Craighead, Lonoke, Pope, Washington, White, Benton, Greene, Sebastian, Cleburne, Independence, Stone, Baxter, Clay, Conway, Crawford, Johnson, Saline, Sharp and Yell counties in Arkansas; Broward, Monroe, Hillsborough, Leon, Sarasota, Bay, Franklin, Palm Beach, Gulf, Charlotte, Collier, Escambia, Orange, Osceola, Pasco, Pinellas, Polk, Walton, Miami-Dade, Lee, Calhoun, Gadsden, Hernando, Liberty, Okaloosa, Santa Rosa, Seminole, Wakulla and Manatee counties in Florida; Baldwin County in Alabama; and New York County in New York. Many other commercial banks, savings institutions and credit unions have offices in our primary market areas. These institutions include many of the largest banks operating in these respective states, including some of the largest banks in the country. Many of our competitors serve the same counties we do. Our competitors often have greater resources, have broader geographic markets, have higher lending limits, offer various services that we may not currently offer and may better afford and make broader use of media advertising, support services and electronic technology than we do. To offset these competitive disadvantages, we depend on our reputation as having greater personal service, consistency, and flexibility and the ability to make credit and other business decisions quickly.

Human Capital Resources

General. Our community banking philosophy relies heavily on the personal relationships and the quality of service provided by employees. We rely on experienced bankers and community bank boards who are empowered to make customer-related decisions quickly. Experienced and empowered local bankers and board members facilitate our commitment to provide exceptional service and develop strong customer relationships. At the local level, we have preserved lending authority by using local loan committees that maintain an integral connection to the communities we serve, which allows us to capitalize on the strong relationships that these individuals and our local bank officers have in their respective communities to maintain and grow our business. Accordingly, we aim to attract, develop and retain employees who can drive financial and strategic growth objectives and build long-term shareholder value while executing our community banking philosophy.

On December 31, 2020, we had 2,018 full-time equivalent employees. Except for any additional employees acquired in future acquisitions, we expect that our 2021 staffing levels will be slightly higher than those at year end 2020 to meet increased regulatory requirements resulting from exceeding $10 billion in assets. We consider our employee relations to be good, and we have no collective bargaining agreements with any employees.

In managing the Company's business, management focuses on various human capital measures and objectives designed to address the development, attraction and retention of personnel. These include competitive compensation and benefits, paid time off, an employee retirement plan, bonus and other incentive compensation plans, modern equipment and support, leadership development and professional development as well as those benefits described below.

Diversity and Inclusion. We seek to recognize the unique contribution each individual brings to the Company, and we understand the associated value that comes with a diverse workforce. We strive to offer an inclusive environment where employees from all backgrounds can succeed. As of December 31, 2020, 70% of our employees were women and 19% of our employees identify as a person of color. Further, as of December 31, 2020, 61% of the Company's leadership positions were held by women.

Employee Safety and Health. The health and well-being of our employees is a priority for our business. Our full-time officers and employees are provided hospitalization and major medical insurance. We pay a substantial part of the premiums for these coverages. We also provide other basic insurance coverage including dental, life, and long-term disability insurance.

In response to COVID-19, to support the health and well-being of our employees, we continue to support working remotely. To equip employees to work remotely, we deployed over 100 webcams and over 100 laptops to personnel. Beyond these efforts to support working remotely, departments were spread out to adhere to social distancing guidelines and personal protection equipment in the form of gloves, masks and hand sanitizer were routinely delivered to all of our banking facilities. In addition, all employees who were required or mandated to be quarantined or who chose to self-quarantine due to exposure received emergency paid time off. In the event of a daycare or school closing and the employee needed to care for their children or legal dependent(s), employees were authorized to utilize a telework arrangement, an alternative work schedule or emergency paid time off.

SUPERVISION AND REGULATION

General

We and our bank subsidiary are subject to extensive state and federal banking regulations that impose restrictions on and provide for general regulatory oversight of our company and its operations. These laws generally are intended to protect depositors, the deposit insurance fund of the Federal Deposit Insurance Corporation ("FDIC") and the banking system as a whole, and not shareholders.

The following discussion describes the material elements of the regulatory framework that applies to us. This description is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to us and our subsidiaries could have a material effect on our business, financial condition and results of operations. Because our bank subsidiary's total assets exceed $10 billion, it is subject to additional supervision and regulation, including by the Consumer Financial Protection Bureau ("CFPB"), with such additional supervision and regulation discussed throughout this section.

Financial Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") made extensive changes in the regulation of financial institutions and their holding companies. The Dodd-Frank Act contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. Some of these provisions are described in more detail below. Many provisions of the Dodd-Frank Act have delayed effective dates, and the legislation requires various federal agencies to adopt a broad range of new rules and regulations, some of which have not yet been issued in final form. In addition, we and our bank subsidiary became subject to certain Dodd-Frank Act provisions for the first time in 2018 as our bank subsidiary's total assets exceeded $10 billion. We expect our operating and compliance costs to continue to increase as a result of the Dodd-Frank Act and implementing its regulations.

Home BancShares

We are a bank holding company registered under the federal Bank Holding Company Act of 1956 (the "Bank Holding Company Act") and are subject to supervision, regulation and examination by the Federal Reserve Board. The Bank Holding Company Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Acquisitions of Banks. The Bank Holding Company Act requires every bank holding company to obtain the Federal Reserve Board's prior approval before:

- acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank's voting shares;
- acquiring all or substantially all of the assets of any bank; or
- merging or consolidating with any other bank holding company.

Under the Bank Holding Company Act, if well-capitalized and well managed, we, as well as other bank holding companies located within the states in which we operate, may purchase a bank located outside of those states. Conversely, a well-capitalized and well managed bank holding company located outside of the states in which we operate may purchase a bank located inside those states. In each case, however, restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits. In approving bank acquisitions by bank holding companies, the Federal Reserve Board is required to consider, among other things, the financial and managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served and various competitive factors.

Permitted Activities. A bank holding company is generally permitted under the Bank Holding Company Act to engage in or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in the following activities:

- banking or managing or controlling banks; and
- any activity that the Federal Reserve Board determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve Board has found to be so closely related to banking as to be a proper incident to the business of banking include but are not limited to: factoring accounts receivable; making, acquiring, brokering or servicing loans and usual related activities; leasing personal or real property; operating a non-bank depository institution, such as a savings association; trust company functions; financial and investment advisory activities; conducting securities brokerage activities; underwriting and dealing in government obligations and money market instruments; providing specified management consulting and counseling activities; performing selected data processing services and support services; acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and performing selected insurance underwriting activities.

Support of Subsidiary Institutions. Under the Dodd-Frank Act, we are required to act as a source of financial strength for our bank subsidiary and to commit resources to support the bank. Under current federal law, the Federal Reserve may require us to make capital injections into our bank subsidiary and may charge us with engaging in unsafe and unsound practices if we fail to commit resources to our bank subsidiary or if we undertake actions that the Federal Reserve believes might jeopardize our ability to commit resources to the bank. As a result, an obligation to support our bank subsidiary may be required at times when, without this requirement, we might not be inclined to provide it.

Safe and Sound Banking Practices. Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board's Regulation Y, for example, generally requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Depending upon the circumstances, the Federal Reserve Board could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices, or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as approximately $2 million for each day the activity continues.

Annual Reporting; Examinations. We are required to file annual reports with the Federal Reserve Board, and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may examine a bank holding company or any of its subsidiaries and charge the company for the cost of such examination.

Capital Adequacy Requirements. The Federal Reserve Board has adopted a system using risk-based capital guidelines to evaluate the capital adequacy of bank holding companies having $500 million or more in assets on a consolidated basis. Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a "risk-weighted" asset base. The guidelines in effect as of December 31, 2020 require a minimum total risk-based capital ratio of 8.0% (of which at least 6.0% is required to consist of Tier 1 capital elements) and a total risk-based capital ratio of at least 10% (of which at least 8.0% is required to consist of Tier 1 capital elements) to be "well-capitalized." Total capital is the sum of Tier 1 and Tier 2 capital. As of December 31, 2020, our Tier 1 risk-based capital ratio was 14.01% and our total risk-based capital ratio was 17.75%. Thus, as of December 31, 2020, we are considered well-capitalized for regulatory purposes.

In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. Certain highly-rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies are required to maintain a leverage ratio of at least 4.0%. Well-capitalized is a leverage ratio in excess of 5%. As of December 31, 2020, our leverage ratio was 10.85%.

The federal banking agencies' risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions, substantially above the minimum supervisory levels, without significant reliance on intangible assets.

The Dodd-Frank Act includes certain provisions concerning the capital regulations of the federal banking agencies. These provisions, often referred to as the "Collins Amendment," are intended to subject bank holding companies to the same capital requirements as their bank subsidiaries and to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued before May 19, 2010 by a company, such as our Company, with total consolidated assets of less than $15 billion as of December 31, 2009, and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital. The Collins Amendment requires banking regulators to develop regulations setting minimum risk-based and leverage capital requirements for holding companies and banks on a consolidated basis that are no less stringent than the generally applicable requirements in effect for depository institutions under the prompt corrective action regulations discussed below. The banking regulators also must seek to make capital standards countercyclical so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction.

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" ("Basel III") and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, bank holding companies with total consolidated assets of $500 million or more and savings and loan holding companies (collectively, "banking organizations"). Among other things, the rule established a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum Tier 1 risk-based capital requirement (6% of risk-weighted assets) and assigns higher risk weightings (150%) to exposures that are more than 90 days past due or are on non-accrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. As of December 31, 2020, the Company's common equity Tier 1 capital ratio was 13.42%.

The final rule permanently grandfathers trust preferred securities and other non-qualifying capital instruments that were issued and outstanding as of May 19, 2010 in the Tier 1 capital of bank holding companies with total consolidated assets of less than $15 billion as of December 31, 2009. The rule phases out of Tier 1 capital these non-qualifying capital instruments issued before May 19, 2010 by all other bank holding companies. Because our total consolidated assets were less than $15 billion as of December 31, 2009, our outstanding trust preferred securities continue to be treated as Tier 1 capital. However, now that we have exceeded $15 billion in assets, if we acquire another financial institution in the future, then the Tier 1 treatment of our outstanding trust preferred securities will be phased out, but those securities will still be treated as Tier 2 capital.

The final rule also limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" of 2.5% of common equity Tier 1 capital to risk-weighted assets, which is in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule became effective for the Company and our bank subsidiary on January 1, 2015. The capital conservation buffer requirement began being phased in on January 1, 2016, and the full capital conservation buffer requirement became effective January 1, 2019. As of December 31, 2020, our capital conservation buffer was 8.01%.

Liquidity Requirements. Historically, the regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without minimum required formulaic measures. The Basel III liquidity framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio, is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio, is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements are expected to incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. The federal banking agencies have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

Stress Testing. Pursuant to the Dodd-Frank Act, in October 2012, the Federal Reserve Board published its final rules regarding company-run stress testing. The rules require institutions with average total consolidated assets greater than $10 billion, such as the Company and our bank subsidiary, to conduct an annual company-run stress test of capital and consolidated earnings and losses under one base and at least two stress scenarios provided by bank regulatory agencies.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "EGRRCPA") was signed into law, making certain limited amendments to the Dodd-Frank Act, as well as certain targeted modifications to other post-financial crisis regulations. Among other things, the law raises the asset thresholds for Dodd-Frank Act company-run stress testing, liquidity coverage and living will requirements for bank holding companies to $250 billion, subject to the ability of the Fed to apply such requirements to institutions with assets of $100 billion or more to address financial stability risks or safety and soundness concerns. On July 6, 2018, the Federal Reserve, the FDIC and the Office of the Comptroller of the Currency (the "OCC") issued a joint interagency statement regarding the impact of the EGRRCPA. As a result of this statement and the EGRRCPA, we and our bank subsidiary are no longer subject to Dodd-Frank Act stress testing requirements and were not required to undergo stress testing in 2019. Notwithstanding these amendments to the stress testing requirements, the federal banking agencies indicated through interagency guidance that the capital planning and risk management practices of institutions with total assets less than $100 billion would continue to be reviewed through the regular supervisory process. We will continue to monitor our capital consistent with the safety and soundness expectations of the federal regulators.

Risk Management. Regulation YY requires publicly-traded bank holding companies with $10 billion or more in total assets to establish a risk committee responsible for oversight of enterprise-wide risk management practices. The committee must be chaired by an independent director and include at least one risk management expert with experience in managing risk exposures of large, complex firms. As a result of our total assets exceeding $10 billion, we established a risk committee meeting these requirements. However, effective May 2018, the recently enacted EGRRCPA increased the asset threshold for mandatory risk committees from $10 billion to $50 billion in total assets. While we are no longer required to maintain a risk committee, we currently continue to utilize our risk committee to oversee our enterprise-wide risk management practices.

Regulation YY also requires us, as a publicly-traded bank holding company with $10 billion or more in total consolidated assets, to have a global risk management framework commensurate with their structure, risk profile, complexity, activities, and size. The risk management framework must include risk management policies and procedures, as well as processes and controls to implement them. Accordingly, we have adopted a compliant risk management framework.

Payment of Dividends. We are a legal entity separate and distinct from our bank subsidiary and other affiliated entities. The principal sources of our cash flow, including cash flow to pay dividends to our shareholders, are dividends that our bank subsidiary pays to us as its sole shareholder. Statutory and regulatory limitations apply to the dividends that our bank subsidiary can pay to us, as well as to the dividends we can pay to our shareholders.

The policy of the Federal Reserve Board that a bank holding company should serve as a source of strength to its subsidiary bank also results in the position of the Federal Reserve Board that a bank holding company should not maintain a level of cash dividends to its shareholders that places undue pressure on the capital of its bank subsidiary or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company's ability to serve as such a source of strength. Our ability to pay dividends is also subject to the provisions of Arkansas law.

There are certain state-law limitations on the payment of dividends by our bank subsidiary. Centennial Bank, which is subject to Arkansas banking laws, may not declare or pay a dividend of 75% or more of the net profits of such bank after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year without the prior approval of the Arkansas State Bank Commissioner (the "Bank Commissioner"). Members of the Federal Reserve System must also comply with the dividend restrictions with which a national bank would be required to comply. Among other things, these restrictions require that if losses have at any time been sustained by a bank equal to or exceeding its undivided profits then on hand, no dividend may be paid. Although we have historically paid quarterly dividends on our common stock, there can be no assurances that we will be able to pay dividends in the future under the applicable regulatory limitations.

The payment of dividends by us, or by our bank subsidiary, may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under FDICIA, a depository institution may not pay any dividend if payment would result in the depository institution being undercapitalized.

Subsidiary Bank

General. Our bank subsidiary, Centennial Bank, is chartered as an Arkansas state bank and is a member of the Federal Reserve System, making it primarily subject to regulation and supervision by both the Federal Reserve Board and the Arkansas State Bank Department. In addition, our bank subsidiary is subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that they may charge, and limitations on the types of investments they may make and on the types of services they may offer. Various consumer laws and regulations also affect the operations of our bank subsidiary. Further, because our bank subsidiary had total assets of over $10 billion as of December 31, 2020, it is subject to supervision and regulation by the CFPB, which is responsible for implementing, examining and enforcing compliance with federal consumer protection laws.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) in which all institutions are placed. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. The federal banking agencies have specified by regulation the relevant capital level for each category.

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

The Basel III final rule issued by the federal bank regulatory agencies in July 2013 amended the prompt corrective action rules to incorporate a common equity Tier 1 capital requirement and to raise the capital requirements for certain capital categories. These rules became effective as of January 1, 2015. In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization is required to have at least an 8% total risk-based capital ratio, a 6% Tier 1 risk-based capital ratio, a 4.5% common equity Tier 1 risk-based capital ratio and a 4% Tier 1 leverage ratio. To be well-capitalized, a banking organization is required to have at least a 10% total risk-based capital ratio, an 8% Tier 1 risk-based capital ratio, a 6.5% common equity Tier 1 risk-based capital ratio and a 5% Tier 1 leverage ratio.

Deposit Insurance and Assessments. Centennial Bank's deposit accounts are insured up to applicable limits by the FDIC's Deposit Insurance Fund ("DIF"). The Dodd-Frank Act permanently increased the deposit coverage limit to $250,000 per depositor retroactive to January 1, 2008.

The FDIC imposes an assessment against institutions for deposit insurance. This assessment is based primarily on the risk category of the institution and certain risk adjustments specified by the FDIC, with riskier institutions paying higher assessments. Under the FDIC's risk-based assessment system, insured institutions with at least $10 billion in assets are assessed on the basis of a scoring system that combines the institution's regulatory ratings and certain financial measures. The scoring system assesses risk measures to produce two scores, a performance score and a loss severity score, that will be combined and converted to an initial assessment rate. The performance score measures an institution's financial performance and its ability to withstand stress. The loss severity score quantifies the relative magnitude of potential losses to the FDIC in the event of an institution's failure. Once the performance and loss severity scores are calculated, these scores will be converted to a total score. The FDIC has the authority to raise or lower assessment rates, subject to limits, and to impose special additional assessments.

In 2011, the FDIC approved a final rule implementing changes to the deposit insurance assessment system, as authorized by the Dodd-Frank Act, which, among other things, changed the assessment base for insured depository institutions from adjusted domestic deposits to the institution's average consolidated total assets during an assessment period less average tangible equity capital (Tier 1 capital) during that period. The rule revised the assessment rate schedule so that it ranges from 2.5 basis points for the least risky institutions to 45 basis points for the riskiest institutions. The rule also suspended indefinitely the requirement of the FDIC to pay dividends from the DIF when it reaches 1.5% of insured deposits. In lieu of the dividends, the FDIC adopted progressively lower assessment rate schedules when the reserve ratio exceeds 1.15%, 2.0% and 2.5%, respectively. The designated reserve ratio ("DRR") exceeded 1.15% as of June 30, 2016. As a result, the base deposit insurance rates now range from (i) 1.5 to 30 basis points of an institution's assessment base for small banks and (ii) 1.5 to 40 basis points for institutions with an assessment base of over $10 billion.

The FDIC has historically imposed special additional assessments on depository institutions from time to time in order to bolster deposit insurance funds. Starting the quarter after the DRR surpassed 1.15% in 2016 and ending October 1, 2018, when the DRR reached 1.35%, insured institutions with an assessment base (total assets less tangible capital) of over $10 billion were required to pay surcharge insurance assessments at an annual rate of 4.5 basis points of their assessment base. In addition, for many years, all institutions with deposits insured by the FDIC were required to pay quarterly assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established as a financing vehicle to recapitalize the former Federal Savings & Loan Insurance Corporation. The final series of these bonds matured in September 2019, and the final assessment was collected in the first quarter of 2019.

Under the Federal Deposit Insurance Act, as amended, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Community Reinvestment Act. The Community Reinvestment Act requires, in connection with examinations of financial institutions, that federal banking regulators evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on our bank subsidiary. Additionally, we must publicly disclose the terms of various Community Reinvestment Act-related agreements. Our bank subsidiary received a "satisfactory" CRA rating from the Federal Reserve Bank during its last exam as published in our bank's CRA Public Evaluation.

Capital Requirements. Our bank subsidiary is also subject to certain restrictions on the payment of dividends as a result of the requirement that it maintain adequate levels of capital in accordance with guidelines promulgated from time to time by applicable regulators. The regulating agencies consider a bank's capital levels when taking action on various types of applications and when conducting supervisory activities related to the safety and soundness of individual banks and the banking system. The Federal Reserve Bank monitors the capital adequacy of our bank subsidiary by using a combination of risk-based guidelines and leverage ratios.

The FDIC Improvement Act. The Federal Deposit Insurance Corporation Improvement Act of 1991, or "FDICIA," made a number of reforms addressing the safety and soundness of the deposit insurance system, supervision of domestic and foreign depository institutions, and improvement of accounting standards. This statute also limited deposit insurance coverage, implemented changes in consumer protection laws and provided for least-cost resolution and prompt regulatory action with regard to troubled institutions.

FDICIA requires every bank with total assets in excess of $500 million to have an annual independent audit made of the bank's financial statements by an independent public accountant to verify that the financial statements of the bank are presented fairly and in accordance with generally accepted accounting principles and comply with such other disclosure requirements as prescribed by the FDIC. FDICIA also places certain restrictions on activities of banks depending on their level of capital.

The capital classification of a bank affects the frequency of examinations of the bank and impacts the ability of the bank to engage in certain activities and affects the deposit insurance premiums paid by such bank. Under FDICIA, the federal banking regulators are required to conduct a full-scope, on-site examination of every bank at least once every 12 months.

Brokered Deposits. Under FDICIA, banks may be restricted in their ability to accept brokered deposits, depending on their capital classification. “Well-capitalized” banks are permitted to accept brokered deposits, but banks that are not well-capitalized are not permitted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank. The EGRRCPA enacted in May 2018 provides that most reciprocal deposits are no longer treated as brokered deposits.

Federal Home Loan Bank System. The Federal Home Loan Bank (“FHLB”) system, of which our bank subsidiary is a member, consists of regional FHLBs governed and regulated by the Federal Housing Finance Agency, or FHFA. The FHLBs serve as reserve or credit facilities for member institutions within their assigned regions. They are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. They make loans (i.e., advances) to members in accordance with policies and procedures established by the FHLB and the boards of directors of each regional FHLB.

As a system member, our bank subsidiary is entitled to borrow from the FHLB of its region and is required to own a certain amount of capital stock in the FHLB. Our bank subsidiary is in compliance with the stock ownership rules with respect to such advances, commitments and letters of credit and home mortgage loans and similar obligations. All loans, advances and other extensions of credit made by the FHLB to our bank subsidiary are secured by a portion of its respective loan portfolio, certain other investments and the capital stock of the FHLB held by such bank.

Federal Reserve System. In January 2019, the Federal Open Market Committee announced its intention to implement monetary policy in an ample reserves regime. Reserve requirements do not play a significant role in this operating framework. In light of the shift to an ample reserves regime, the Federal Reserve reduced the reserve requirement ratios to zero percent effective on March 26, 2020. As a result, the Bank is no longer required to maintain required reserve balance with either the FRB or in the form of cash on hand.

Concentrated Commercial Real Estate Lending Regulations. The federal banking agencies, including the FDIC, have promulgated guidance governing financial institutions with concentrations in commercial real estate lending, which was re-emphasized in December 2015. The guidance provides that a bank has a concentration in commercial real estate lending if (1) total reported loans for construction, land development and other land represent 100% or more of total capital or (2) total reported loans secured by multifamily and non-farm residential properties and loans for construction, land development and other land represent 300% or more of total capital and the bank’s commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Owner occupied loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address the following key elements: including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending.

Mortgage Banking Operations. Our bank subsidiary is subject to the rules and regulations of FHA, VA, FNMA, FHLMC and GNMA with respect to originating, processing, selling and servicing mortgage loans and the issuance and sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts, and, with respect to VA loans, fix maximum interest rates.

Consumer Financial Protection. Our bank subsidiary is subject to a number of federal and state consumer protection laws that extensively govern its relationship with its customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act and these laws' respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices, restrict the bank's ability to raise interest rates and subject the bank to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which our bank subsidiary operates and civil money penalties. Failure to comply with consumer protection requirements may also result in our bank subsidiary's failure to obtain any required bank regulatory approval for merger or acquisition transactions the bank may wish to pursue or its prohibition from engaging in such transactions even if approval is not required.

The Dodd-Frank Act established the CFPB, which has supervisory authority over depository institutions with total assets of $10 billion or greater. The CFPB focuses its supervision and regulatory efforts on (1) risks to consumers and compliance with the federal consumer financial laws when it evaluates the policies and practices of a financial institution; (2) the markets in which firms operate and risks to consumers posed by activities in those markets; (3) depository institutions that offer a wide variety of consumer financial products and services; (4) certain depository institutions with a more specialized focus; and (5) non-depository companies that offer one or more consumer financial products or services.

The CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit "unfair, deceptive or abusive" acts and practices. Abusive acts or practices are defined as those that materially interfere with a consumer's ability to understand a term or condition of a consumer financial product or service or take unreasonable advantage of a consumer's (1) lack of financial savvy, (2) inability to protect himself in the selection or use of consumer financial products or services or (3) reasonable reliance on a covered entity to act in the consumer's interests. The CFPB can issue cease-and-desist orders against banks and other entities that violate consumer financial laws. The CFPB may also institute a civil action against an entity in violation of federal consumer financial law in order to impose a civil penalty or injunction. The CFPB has examination and enforcement authority over all banks with more than $10 billion in assets, as well as their affiliates.

Loans to One Borrower. Our bank subsidiary generally may not make loans or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, up to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2020, our bank subsidiary was in compliance with the loans-to-one-borrower limitations.

Prohibitions Against Tying Arrangements. Under Regulation Y, our bank subsidiary is prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Restrictions on Transactions with Affiliates. We and our bank subsidiary are subject to Section 23A of the Federal Reserve Act. In general, Section 23A imposes limits on the amount of transactions between the bank and its affiliates and requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to affiliates which are collateralized by the securities or obligations of the bank or its nonbanking affiliates. An affiliate of a bank is generally any company or entity that controls, is controlled by, or is under common control with the bank.

Affiliate transactions are also subject to Section 23B of the Federal Reserve Act which generally requires that certain other transactions between the bank and its affiliates be on terms substantially the same, or at least as favorable to the bank, as those prevailing at that time for comparable transactions with or involving other non-affiliated persons.

Sections 22(g) and (h) of the Federal Reserve Act and its implementing regulation, Regulation O, also place restrictions on loans by a bank to executive officers, directors, and principal shareholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% shareholder of a bank and certain of their related interests, or insiders, and insiders of affiliates, may not exceed, together with all other outstanding loans to such person and related interests, the bank's loans-to-one-borrower limit. Section 22(h) also requires that loans to insiders and to insiders of affiliates be made on terms substantially the same as offered in comparable transactions to other persons, unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the bank and (ii) does not give preference to insiders over other employees of the bank. In addition, Section 22(h) requires prior board of director's approval for certain loans, and the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

Interchange Fees. Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve Board adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are "reasonable and proportional" to the costs incurred by issuers for processing such transactions. Interchange fees, or "swipe" fees, are charges that merchants pay to our bank subsidiary and other card-issuing banks for processing electronic payment transactions. Federal Reserve Board rules applicable to financial institutions that have assets of $10 billion or more provide that the maximum permissible interchange fee is equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. A debit card issuer may also recover 1 cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. In addition, the Federal Reserve has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product. We exceeded $10 billion in assets during the first quarter of 2017 and became subject to the Durbin Amendment to the Dodd-Frank Act interchange fee restrictions beginning in the third quarter of 2018. The Durbin Amendment negatively impacted debit card and ATM fees beginning in the second half of 2018. We collected $14.9 million and $14.4 million in debit card interchange fees for the years ended December 31, 2020 and 2019, respectively, compared to $20.4 million collected during 2018.

The Volcker Rule. The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring hedge funds and private equity funds. The statutory provision is commonly called the "Volcker Rule." In December 2013, federal regulators adopted final rules to implement the Volcker Rule that generally became effective in July 2015. The Volcker Rule also requires covered banking entities, including us and our bank subsidiary, to implement certain compliance programs, and the complexity and rigor of such programs is determined based on the asset size and complexity of the business of the covered company. Since neither we nor our bank subsidiary engages in the types of trading or investing covered by the Volcker Rule, the Volcker Rule does not currently have any effect on our or our bank subsidiary's operations.

Privacy. Under the Gramm-Leach-Bliley Act, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. We and our subsidiary have established policies and procedures to assure our compliance with all privacy provisions of the Gramm-Leach-Bliley Act.

We are also subject to various regulatory guidance as updated from time to time and implemented by the Federal Financial Institutions Examinations Council (the "FFIEC"), an interagency body of the FDIC, the OCC, the Federal Reserve, the National Credit Union Administration and various state regulatory authorities. The FFIEC has provided guidance in areas such as data privacy, disaster recovery, information security, and third-party vendor management to identify potential risks related to our services that could adversely affect our customers. In addition, lawmakers, regulators and the public are increasingly focused on the use of personal information and efforts to strengthen data protection, information security and consumer and personal privacy. The law in these areas continues to develop, and we expect regulation in these areas to continue to increase.

Anti-Terrorism and Anti-Money Laundering Legislation. Our bank subsidiary is subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), the Bank Secrecy Act ("BSA") and rules and regulations of the Office of Foreign Assets Control (the "OFAC"). These statutes and related rules and regulations impose requirements and limitations on specific financial transactions and account relationships intended to guard against money laundering, terrorism financing and transactions with designated foreign countries, nationals and others on whom the United States has imposed economic sanctions. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

As part of our bank subsidiary's anti-money laundering ("AML") program, we are required to designate a BSA officer, maintain a BSA/AML training program, maintain internal controls to effectuate the BSA/AML program, implement independent testing of the BSA/AML program, and as of February 1, 2019, comply with the Financial Crimes Enforcement Network's new "Customer Due Diligence for Financial Institutions Rule" (the "CDD Rule"). The CDD Rule adds a new requirement for our bank subsidiary to identify and verify the identity of natural persons ("beneficial owners") of legal entity customers who own, control and profit from companies when those companies open accounts. The CDD Rule requires covered financial institutions to establish and maintain written policies and procedures that are reasonably designed to (1) identify and verify the identity of customers; (2) identify and verify the identity of the beneficial owners of companies opening accounts; (3) understand the nature and purpose of customer relationships to develop customer risk profiles; and (4) conduct ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information. With respect to the new requirement to obtain beneficial ownership information, financial institutions will have to identify and verify the identity of any individuals who own 25 percent or more of a legal entity, and an individual who controls the legal entity.

Incentive Compensation. The Dodd-Frank Act requires the federal bank regulators and the Securities and Exchange Commission (the "SEC") to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements.

In June 2010, the Federal Reserve and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (1) provide incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk, (2) be compatible with effective internal controls and risk management and (3) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

In May 2016, the Federal Reserve, other federal banking agencies and the SEC jointly published a revised version of proposed rulemaking initially issued in April 2011 designed to implement the provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that encourage inappropriate risk taking at a covered institution, which includes a bank or bank holding company with $1 billion or more of assets, such as the Company and our bank subsidiary. The proposed joint compensation regulations would require compensation practices consistent with the three principles discussed above. As of February 1, 2021, these regulations have not been finalized. Unless and until a final rule is adopted, we cannot fully determine whether compliance with such a rule will adversely affect the Company's or our bank subsidiary's ability to hire, retain and motivate our key employees.

The Federal Reserve Board reviews, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews are tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of this supervisory initiative will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Customer Information Security. The federal banking agencies have adopted guidelines for safeguarding confidential, personal, nonpublic customer information. These guidelines require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazard to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. Our bank subsidiary has adopted a customer information security program to comply with these requirements.

Arkansas Law. Our bank subsidiary is subject to regulation and examination by the Arkansas State Bank Department. Under the Arkansas Banking Code of 1997, approval of the Bank Commissioner is required for the acquisition of more than 25% of any class of the outstanding capital stock of any bank. The Bank Commissioner's approval is also required in order for us to make bank acquisitions, amend our articles of incorporation, repurchase shares of our capital stock (other than payments to dissenting shareholders in a transaction), issue preferred stock or debt, increase, reduce or retire any part of our capital stock, retire debt instruments, or conduct certain types of activities that are incidental or closely related to banking. The Bank Commissioner has the authority, with the consent of the Governor of the State of Arkansas, to declare a state of emergency and temporarily modify or suspend banking laws and regulations in communities where such a state of emergency exists. The Bank Commissioner may also authorize a bank to close its offices and any day when such bank offices are closed will be treated as a legal holiday, and any director, officer or employee of such bank shall not incur any liability related to such emergency closing. No such state of emergency has been declared to exist by the Bank Commissioner to date.

Regulatory Developments Relating to the CARES Act

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020 to provide national emergency economic relief measures. Many of the CARES Act's programs are, and remain, dependent upon the direct involvement of U.S. financial institutions like we and our bank subsidiary. These programs have been implemented through rules and guidance adopted by federal departments and agencies, including the U.S. Department of Treasury, the Federal Reserve, and other federal bank regulatory authorities, including those with direct supervisory jurisdiction over the Company and its bank subsidiary. Set forth below is a brief overview of select provisions of the CARES Act and other regulations and supervisory guidance related to the COVID-19 pandemic that are applicable to the operations and activities of the Company and its bank subsidiary.

Paycheck Protection Program ("PPP"). The CARES Act established a new federal economic relief program administered by the Small Business Administration ("SBA") called the Paycheck Protection Program ("PPP"), which provides for 100% federally guaranteed loans to be issued by participating private financial institutions to small businesses for payroll and certain other permitted expenses during the COVID-19 pandemic. Our bank subsidiary has participated in the PPP as a lender. These loans are eligible to be forgiven if certain conditions are satisfied and are fully guaranteed by the SBA. Additionally, loan payments will also be deferred for the first six months of the loan term. The PPP commenced on April 3, 2020 and was available to qualified borrowers through August 8, 2020. No collateral or personal guarantees were required. Neither the government nor lenders are permitted to charge the recipients any fees. The Paycheck Protection Program and Health Care Enhancement Act ("PPP/HCEA Act") was passed by Congress on April 23, 2020 and signed into law on April 24, 2020. The PPP/HCEA Act authorizes additional funds under the CARES Act for PPP loans to be issued by financial institutions through the SBA. On December 27, 2020, the President signed into law omnibus federal spending and economic stimulus legislation titled the Consolidated Appropriations Act that included the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the "HHSB Act"). Among other things, the HHSB Act renewed the PPP, allocating $284.45 billion for both new first time PPP loans under the existing PPP and the expansion of existing PPP loans for certain qualified, existing PPP borrowers. We continue to monitor legislative, regulatory, and supervisory developments related thereto, including the most recent changes implemented by the HHSB Act.

*Troubled Debt Restructuring and Loan Modifications for Affected Borrowers***.** Section 4013 of the CARES Act provides financial institutions the option to temporarily suspend certain requirements under U.S. generally accepted accounting principles ("GAAP") related to troubled debt restructurings ("TDR") for a limited period of time to account for the effects of COVID-19. Such suspension may be made if: (i) the loan modification is made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the national COVID-19 emergency termination date, (ii) the applicable loan was not more than 30 days past due as of December 31, 2019, and (iii) the suspension applies to adverse impact on the credit of a borrower that is related to COVID-19. Section 541 of the Consolidated Appropriations Act extends this relief to the earlier of January 1, 2022 or 60 days after the national COVID-19 emergency termination date. Additionally, on March 22, 2020, certain banking regulators and other agencies issued a statement titled the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" (the "Interagency Statement"), which encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. The Interagency Statement was subsequently revised in April 2020 to clarify the interaction of the original guidance with Section 4013 of the CARES Act, as well as setting forth the banking regulators' views on consumer protection considerations. Consistent with the Interagency Statement and to support our customers, we have deferred loan payments for certain consumer and commercial customers, and have offered fee waivers, payment deferrals, and other expanded assistance for automobile, mortgage, small business and personal lending customers. The Company relied on Section 4013 of the CARES Act in accounting for loan modifications in the 4th quarter 2020. The Company granted loan modification to 56 loans for a total of $330.7 million. Of the 56 loans currently on deferment, 51 of the loans totaling $271.1 million chose interest only deferment and have returned to paying interest monthly, with the majority of these loans having modifications for 18 to 24 month interest only payments with a return to full principal and interest payments at the end of the modification term.

Temporary Regulatory Capital Relief related to Impact of Current Expected Credit Loss ("CECL"). Concurrent with enactment of the CARES Act, the federal bank regulatory agencies issued an interim final rule that delays the estimated impact on regulatory capital resulting from the implementation of CECL. The interim final rule maintains the three-year transition option in the previous rule and provides banking organizations that implemented CECL during 2020 the option to delay for two years the estimated impact of CECL on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period to phase out the aggregate amount of capital benefit provided during the initial two-year delay. We adopted CECL on January 1, 2020 and have elected to utilize the five-year transition option.

Proposed Legislation and Regulatory Action

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment for us and our bank subsidiary in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Polices

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Board's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to banks and its influence over reserve requirements to which banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

AVAILABLE INFORMATION

We are subject to the information requirements of the Securities Exchange Act of 1934. Accordingly, we file annual, quarterly and current reports, proxy statements and other information with the SEC. In addition, we maintain a website at http://www.homebancshares.com. We make available on our website copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such documents as soon as practicable after we electronically file such materials with or furnish such documents to the SEC.

Item 1A. RISK FACTORS

Our business exposes us to certain risks. Risks and uncertainties that management is not aware of or focused on may also adversely affect our business and operation. The following is a discussion of the most significant risks and uncertainties that may affect our business, financial condition and future results.

Risks Related to Our Industry

We are subject to extensive regulation that could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business, and changes in the laws and regulations to which we are subject could adversely affect our profitability.

We and our bank subsidiary are subject to extensive federal and state regulation and supervision. As a registered bank holding company, we are primarily regulated by the Federal Reserve Board. Our bank subsidiary is also primarily regulated by the Federal Reserve Board and the Arkansas State Bank Department.

Banking industry regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. Complying with such regulations is costly and may limit our growth and restrict certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capital requirements by our regulators. Violations of various laws, even if unintentional, may result in significant fines or other penalties, including restrictions on branching or bank acquisitions.

Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes in light of the performance of and government intervention in the financial services sector during the recession of the last decade. The act required the issuance of a substantial number of new regulations by federal regulatory agencies which will affect financial institutions, some of which have yet to be issued or implemented.

While the Economic Growth, Regulatory Relief, and Consumer Protection Act enacted in 2018 reduced certain regulatory burdens on community and regional financial institutions resulting from the Dodd-Frank Act, we cannot assure that future legislation will not significantly increase our compliance or operating costs or otherwise have a significant impact on our business. Certain provisions of the Dodd-Frank Act and regulations promulgated under the act may continue to be implemented, and there could be additional new federal or state laws, regulations and policies regarding lending and funding practices and liquidity standards. Additionally, financial institution regulatory agencies have intensified their response to concerns and trends identified in examinations, including through the issuance of formal enforcement actions. Negative developments in the financial services industry or other new legislation or regulations could adversely impact our operations and our financial performance by subjecting us to additional costs, restricting our business operations, including our ability to originate or sell loans, and/or increasing the ability of non-banks to offer competing financial services.

As regulation of the banking industry continues to evolve, we expect the costs of compliance to continue to increase and, thus, to affect our ability to operate profitably. In addition, industry, legislative or regulatory developments may cause us to materially change our existing strategic direction, capital strategies, compensation or operating plans. If these developments negatively impact our ability to implement our business strategies, it may have a material adverse effect on our results of operations and future prospects.

We are subject to heightened regulatory requirements as our total assets exceed $10 billion.

Because our total assets exceed $10 billion, we and our bank subsidiary are subject to increased regulatory requirements. The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with $10 billion or more in total assets. In addition, banks with $10 billion or more in total assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations. Previously, our bank subsidiary had been subject to regulations adopted by the CFPB, but the Federal Reserve was primarily responsible for examining our bank subsidiary's compliance with consumer protection laws and those CFPB regulations. As a relatively new agency with evolving regulations and practices, there is some uncertainty as to how the recent change in presidential administrations may affect the CFPB's examination and regulatory authority, and thus we cannot ascertain the impact, if any, changes to the CFPB may have on our business.

Banks with assets in excess of $10 billion are subject to a deposit assessment based on a scorecard issued by the FDIC that considers, among other things, the bank's CAMELS rating, results of asset-related stress testing and funding-related stress, as well as our use of core deposits, among other things. Depending on the results of the bank's performance under that scorecard, the total base assessment rate is between 1.5 to 40 basis points. Any increase in our bank subsidiary's deposit insurance assessments may result in an increased expense related to our use of deposits as a funding source. Additionally, banks with over $10 billion in total assets are no longer exempt from the requirements of the Federal Reserve's rules on interchange transaction fees for debit cards. Since July 1, 2018, our bank subsidiary has been limited to receiving only a "reasonable" interchange transaction fee for any debit card transactions processed using debit cards issued by our bank subsidiary to our customers. The Federal Reserve has determined that it is unreasonable for a bank with more than $10 billion in total assets to receive more than $0.21 plus 5 basis points of the transaction plus a $0.01 fraud adjustment for an interchange transaction fee for debit card transactions. This limit in the amount of interchange fees we receive for electronic debit interchange has the effect of reducing our revenues. We collected $14.9 million and $14.4 million in debit card interchange fees for the years ended December 31, 2020 and 2019, respectively, respectively, compared to $20.4 million collected during 2018.

In anticipation of becoming subject to the heightened regulatory requirements, we hired additional compliance personnel and implemented structural initiatives to address these requirements. While some of these requirements, such as annual stress testing, were eliminated by the reforms enacted in May 2018, compliance with the remaining requirements may necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations. Our regulators may also consider our compliance with these regulatory requirements when examining our operations generally or considering any request for regulatory approval we may make, even requests for approvals on unrelated matters.

Difficult market and economic conditions may adversely affect our industry and our business.

Economic downturns historically have had a significant adverse impact on the banking industry, and particularly community banks. Declines in the housing market, with falling home prices and increased delinquencies and foreclosures, can negatively impact the credit performance of mortgage and construction loans and result in significant write-downs of assets by financial institutions. Any reduced availability of commercial credit or periods of sustained higher unemployment can further negatively impact the credit performance of commercial and consumer credit, resulting in additional write-downs. Any such market conditions could cause commercial and consumer deficiencies, low customer confidence, market volatility and generally sluggish business activity in our industry.

Unlike larger financial institutions that are more geographically diversified, our profitability depends primarily on the general economic conditions in our primary market areas. Local economic conditions have a significant impact on our residential real estate, commercial real estate, construction, commercial and industrial and consumer lending, including, the ability of borrowers to repay these loans and the value of the collateral securing these loans. Certain economic indicators, such as real estate asset values, rents and unemployment, may vary between geographic markets and may lag behind the overall economy. These economic indicators typically affect certain industries, such as real estate and financial services, more significantly than other economic sectors. Additionally, our success significantly depends upon the growth in population, income levels, deposits and housing starts in our markets. If the communities in which we operate do not grow or if prevailing economic conditions deteriorate locally or nationally, our business may be adversely affected. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. The adverse effects of any future economic downturn on us, our customers and the other financial institutions in our market may result in increased foreclosures, delinquencies and customer bankruptcies as well as more restricted access to funds. Any such negative events may have an adverse effect on our business, financial condition, results of operations and stock price.

The ongoing impacts of the COVID-19 pandemic could materially and adversely affect our future business, financial condition and results of operations. The ultimate impacts of the pandemic on our business will depend on factors that remain uncertain such as, among other things, the long-term scope and duration of the pandemic, the success of ongoing vaccination, treatment and other mitigation efforts, and actions taken by governmental authorities in response to the economic effects of the pandemic.

Beginning in the first quarter of 2020, the COVID-19 pandemic has negatively impacted the U.S. and global economy; disrupted U.S. and global supply chains; lowered equity market valuations; created significant volatility and disruption in financial markets; contributed to a decrease in the rates and yields on U.S. Treasury securities; resulted in ratings downgrades, credit deterioration, and defaults in many industries; increased demands on capital and liquidity; and increased unemployment levels and decreased consumer confidence. In addition, the pandemic has resulted in temporary closures of many businesses, the institution of social distancing, face covering requirements and other health directives, and in some cases, sheltering in place requirements. The pandemic has caused us, and could continue to cause us, to recognize credit losses in our loan portfolios and increases in our allowance for credit losses and could cause further volatility in the valuation of real estate and other collateral supporting loans. Furthermore, the pandemic could cause us to recognize impairment of our goodwill and our financial assets. Sustained adverse effects may also increase our cost of capital, prevent us from satisfying our minimum regulatory capital ratios and other supervisory requirements, or result in downgrades in our credit ratings. The extent to which the COVID-19 pandemic impacts our business, financial condition, liquidity, and results of operations will depend on future developments, which remain uncertain and cannot be predicted, including the long-term scope and duration of the pandemic, the success of ongoing vaccination, treatment and other mitigation efforts, actions taken by governmental authorities in response to the economic effects of the pandemic, and the long-term financial impact of the pandemic on our customers, employees, counterparties and service providers.

Governmental authorities have taken significant measures to provide economic assistance to individual households and businesses, stabilize the markets, and support economic growth, and it is anticipated that further such measures will be enacted or implemented. The success of these measures remains uncertain, and they may not be sufficient to fully mitigate the negative impact of the pandemic. Additionally, governmental programs and policies, including the CARES Act Paycheck Protection Program in which we are participating, may impact our ability to resolve credit delinquencies as well as create heightened litigation risk and risk of holding loans at unfavorable interest rates. We also face an increased risk of governmental and regulatory scrutiny as a result of the effects of the pandemic on market and economic conditions and actions governmental authorities take in response to those conditions.

The potential global and economic impacts of the coronavirus continue to evolve, and the length of the pandemic and the effectiveness of the measures being put in place to address it are unknown. Until the effects of the pandemic subside, we could experience reduced revenues in our businesses and increased customer defaults. Furthermore, the anticipated volatility in the economy and any prolonged recession could further materially and adversely affect our business, financial condition, liquidity, or results of operations.

Our FDIC insurance premiums and assessments could increase and result in higher noninterest expense.

Our bank subsidiary’s deposits are insured by the FDIC up to legal limits, and accordingly, we are subject to FDIC deposit insurance assessments. As our bank subsidiary exceeds $10 billion in assets, we are subject to higher FDIC assessments. Our bank subsidiary’s regular assessments are calculated under the large bank pricing rule using its average consolidated total assets minus average tangible equity as well as by risk classification, which includes regulatory capital levels.

We are generally unable to control the amount and timetable for payment of premiums that we are required to pay for FDIC insurance. There is no guarantee that our assessment rate will not increase in the future. Additionally, if there is an increase in bank or financial institution failures or there is a future need to strengthen the DIF reserve ratio, the FDIC may further revise the assessment rates or the risk-based assessment system. Such changes may require us to pay higher FDIC premiums than our current levels, or the FDIC may charge additional special assessments, either of which would increase our noninterest expense.

Our profitability is vulnerable to interest rate fluctuations and monetary policy.

Most of our assets and liabilities are monetary in nature, and thus subject us to significant risks from changes in interest rates. Consequently, our results of operations can be significantly affected by changes in interest rates and our ability to manage interest rate risk. Changes in market interest rates, or changes in the relationships between short-term and long-term market interest rates, or changes in the relationship between different interest rate indices can affect the interest rates charged on interest-earning assets differently than the interest paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income or a decrease in interest rate spread. In addition to affecting our profitability, changes in interest rates can impact the valuation of our assets and liabilities. Changes in interest rates can also affect our business and profitability in numerous other ways. For example, increases in interest rates can have a negative impact on our results of operations by reducing loan demand and the ability of borrowers to repay their current obligations, while decreases in interest rates may affect loan prepayments.

As of December 31, 2020, our one-year ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities was 137.3% and our cumulative repricing gap position was 16.3% of total earning assets, resulting in a limited impact on earnings for various interest rate change scenarios. The increase in the asset sensitive gap is due primarily to our overnight cash balances being in excess of $1 billion. Management has determined that this is acceptable considering our current economic state. Floating rate loans made up 43.1% of our $11.22 billion total loan portfolio. A loan is considered fixed rate if the loan is currently at its adjustable floor or ceiling. In addition, 62.7% of our loans receivable and 82.0% of our time deposits at December 31, 2020, were scheduled to reprice within 12 months and our other rate sensitive asset and rate sensitive liabilities composition is subject to change. As a result, our interest rate sensitivity profile was asset sensitive as of December 31, 2020, meaning that we estimate our net interest income would increase more from rising interest rates than from falling interest rates. Significant composition changes in our rate sensitive assets or liabilities could result in a more unbalanced position and interest rate changes would have more of an impact on our earnings.

Our results of operations are also affected by the monetary policies of the Federal Reserve Board. Actions by the Federal Reserve Board involving monetary policies could have an adverse effect on our deposit levels, loan demand or business and earnings.

We may be adversely impacted by the transition from the use of the LIBOR interest rate index in the future.

We have certain loans and investment securities indexed to LIBOR to calculate the loan interest rate. The continued availability of the LIBOR index is not guaranteed after 2021. We cannot predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR (with the exception of overnight repurchase agreements, which are expected to be based on the Secured Overnight Financing Rate, or SOFR). The language in our LIBOR-based contracts and financial instruments has developed over time and may have various events that trigger when a successor rate to the designated rate would be selected. If a trigger is satisfied, contracts and financial instruments may give the calculation agent discretion over the substitute index or indices for the calculation of interest rates to be selected. The implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our borrowers may result in our incurring significant expenses in effecting the transition, may result in reduced loan balances if borrowers do not accept the substitute index or indices, and may result in disputes or litigation with customers over the appropriateness or comparability to LIBOR of the substitute index or indices, which could have an adverse effect on our results of operations.

We have elected to participate as a lender in the Paycheck Protection Program and have accordingly become subject to certain risks applicable to lenders under such program.

The PPP loans we have made under the federal CARES Act are guaranteed by the SBA. If the loan funds are used by the borrower for specific purposes as provided under the PPP, these loans may be fully or partially forgiven by the SBA, at which time our bank subsidiary will receive funds related to the PPP loan forgiveness directly from the SBA. If the borrower fails to qualify for loan forgiveness, we are at heightened risk of holding these loans at unfavorable interest rates as compared to the loans to customers that we would have otherwise extended credit. Because of the brief time between the passing of the CARES Act and implementation of the PPP, some of the rules and guidance relating to the PPP evolved or were issued after lenders, including our bank subsidiary, began processing PPP loan applications. There was and continues to be uncertainty regarding some of the laws, rules and guidance relating to the PPP. If the SBA or other regulators determine that we have not complied with all PPP laws, rules and guidance, we could be required to refund some or all of the fees related to PPP loans that we have earned or be subject to other regulatory enforcement action. Furthermore, in the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded or serviced by our bank subsidiary, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty or, if it has already made payment under the guaranty, seek recovery from us of any loss related to the deficiency. In addition, since the commencement of the PPP, we and certain other banks have been subject to litigation, which was subsequently dismissed, regarding the processing of PPP loan applications and payment of processing fees to third party agents. We could be exposed to the risk of other litigation from both customers and non-customers who sought PPP loans from us or in connection with other aspects of the PPP, including but not limited to borrowers seeking forgiveness of their loans. Any financial liability, litigation costs, or reputational damage caused by PPP-related litigation could have a material adverse impact on our business, financial condition, and results of operations.

Risks Related to Our Business

Our decisions regarding credit risk could be inaccurate and our allowance for credit losses may be inadequate, which would materially and adversely affect us.

Management makes various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of our secured loans. We endeavor to maintain an allowance for credit losses that we consider adequate to absorb future losses that may occur in our loan portfolio. As of December 31, 2020, our allowance for credit losses was approximately $245.5 million, or 2.33% of our total loans. In determining the size of the allowance, we analyze our loan portfolio based on our historical loss experience, volume and classification of loans, volume and trends in delinquencies and non-accruals, national and local economic conditions, and other pertinent information.

If our assumptions are incorrect, our current allowance may be insufficient to absorb future loan losses, and increased loan loss reserves may be needed to respond to different economic conditions or adverse developments in our loan portfolio. When there is an economic downturn, it is more difficult for us to estimate the losses that we will experience in our loan portfolio. In addition, federal and state regulators periodically review our allowance for credit losses and may require us to increase our allowance for credit losses or recognize further loan charge-offs based on judgments different than those of our management. Any increase in our allowance for credit losses or loan charge-offs could have a negative effect on our operating results.

On January 1, 2020, we adopted new accounting rules affecting the calculation of the allowance for credit losses (formerly the allowance for loan losses) known as ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance replaces the incurred loss methodology for determining the former allowance for loan losses with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. This standard will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans and recognize the expected credit losses as allowances for credit losses. In connection with the adoption of this guidance, we recorded a one-time cumulative-effect adjustment to the allowance for credit losses of $44.0 million which was recognized through a $32.5 million adjustment to retained earnings, net of tax. This adjustment brought the beginning balance of the allowance for credit losses to $146.1 million as of January 1, 2020. In addition, the Company recorded a $15.5 million reserve on unfunded commitments which was recognized through an $11.5 million adjustment to retained earnings, net of tax. The adoption of the standard has required significant changes to the processes and procedures required to calculate the allowance for credit losses, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. For additional information on the allowance for credit losses, see Notes 1 and 5 in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for the year ended December 31, 2020.

Our high concentration of real estate loans and especially commercial real estate loans exposes us to increased lending risk.

As of December 31, 2020, 72.9% of our total loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral. This includes commercial real estate loans (excluding construction/land development) of $4.54 billion, or 40.5% of total loans, construction/land development loans of $1.56 billion, or 13.9% of total loans, and residential real estate loans of $2.07 billion, or 18.5% of total loans. This high concentration of real estate loans could subject us to increased credit risk in the event of a decrease in real estate values in our markets, a real estate recession or a natural disaster. Also, in any such event, our ability to recover on defaulted loans by foreclosing and selling real estate collateral would be diminished, and we would be more likely to suffer losses on defaulted loans.

In addition to the risks associated with the high concentration of real estate-secured loans, the commercial real estate and construction/land development loans, which comprised 54.4% of our total loan portfolio as of December 31, 2020, expose us to a greater risk of loss than our residential real estate loans, which comprised 18.5% of our total loan portfolio as of December 31, 2020. Commercial real estate and land development loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential loans. Consequently, an adverse development with respect to one commercial loan or one credit relationship exposes us to a significantly greater risk of loss compared to an adverse development with respect to one residential mortgage loan.

The repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate or commercial project. If the cash flows from the project are reduced, a borrower's ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, we may be compelled to modify the terms of the loan, or in the most extreme cases, we may have to foreclose.

If a decline in economic conditions or other issues cause difficulties for our borrowers of these types of loans, if we fail to evaluate the credit of these loans accurately when we underwrite them or if we do not continue to adequately monitor the performance of these loans, our lending portfolio could experience delinquencies, defaults and credit losses that could have a material adverse effect on our business, financial condition or results of operations.

Our geographic concentration of banking activities and loan portfolio makes us more vulnerable to adverse conditions in our local markets.

Our bank subsidiary operates through branch locations in Arkansas, Florida, Alabama and New York City and loan production offices in Los Angeles, California, Dallas, Texas, Miami, Florida, Chesapeake, Virginia and Baltimore, Maryland. However, approximately 72.9% of our total loans and 76.4% of our real estate loans as of December 31, 2020, are to borrowers whose collateral is located in Arkansas, Florida, Alabama and New York, the states in which the Company has its branch locations. An adverse development with respect to the market conditions of any of these specific market areas or a decrease in real estate values in those market areas could expose us to a greater risk of loss than a portfolio that is spread among a larger geographic base.

If the value of real estate were to deteriorate, a significant portion of our loans could become under-collateralized, which could have a material adverse effect on us.

As of December 31, 2020, approximately 72.9% of our total loans were secured by real estate. In prior years, difficult local economic conditions have adversely affected the values of our real estate collateral, and they could do so again if the economic conditions markets were to deteriorate in the future. The real estate collateral in each case provides an alternate source of repayment on our loans in the event of default by the borrower but may deteriorate in value during the time credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

Because we have a concentration of exposure to a number of individual borrowers, a significant loss on any of those loans could materially and adversely affect us.

We have a concentration of exposure to a number of individual borrowers. Under applicable law, our bank subsidiary is generally permitted to make loans to one borrowing relationship up to 20% of its Tier 1 capital plus the allowance for credit losses. As of December 31, 2020, the legal lending limit of our bank subsidiary for secured loans was approximately $410.0 million. Our board of directors has established an in-house lending limit of $20.0 million to any one borrowing relationship without obtaining the approval of both our Chairman, John W. Allison, and our director Richard H. Ashley. As of December 31, 2020, we had a total of $5.35 billion, or 47.6% of our total loans, committed to the aggregate group of borrowers whose total debt exceeds the established in-house lending limit of $20.0 million.

Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures.

Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures. We have traditionally obtained funds principally through local deposits, and we have a base of lower cost transaction deposits. Generally, we believe local deposits are a more stable source of funds than other borrowings because interest rates paid for local deposits are typically lower than interest rates charged for borrowings from other institutional lenders. In addition, local deposits reflect a mix of transaction and time deposits, whereas brokered deposits typically are less stable time deposits, which may need to be replaced with higher cost funds. Our costs of funds and our profitability and liquidity are likely to be adversely affected if and to the extent we must rely upon higher cost borrowings from other institutional lenders or brokers to fund loan demand or liquidity needs, and changes in our deposit mix and growth could adversely affect our profitability and the ability to expand our loan portfolio.

The loss of key employees may materially and adversely affect us.

Our success depends significantly on our Chairman, Chief Executive Officer and President, John W. Allison, and our executive officers, especially Brian S. Davis, J. Stephen Tipton and Kevin D. Hester plus Centennial Bank Chairman, Chief Executive Officer and President, Tracy M. French, as well as other key Centennial Bank personnel. Centennial Bank, in particular, relies heavily on its management team's relationships in its local communities to generate business. The loss of services from a member of our current management team may materially and adversely affect our business, financial condition, results of operations and future prospects.

The value of securities in our investment portfolio may decline in the future.

As of December 31, 2020, we owned $2.47 billion of investment securities. The fair value of our investment securities may be adversely affected by market conditions, including changes in interest rates, and the occurrence of any events adversely affecting the issuer of particular securities in our investments portfolio. We evaluate all securities quarterly to determine if any securities in a loss position requires a provision for credit losses in accordance with ASC 326, *Measurement of Credit Losses on Financial Instruments*. The Company first assesses whether it intends to sell or is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities that do not meet these criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, and changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, , a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Because of changing economic and market conditions affecting issuers, we may be required to record provisions for credit losses in future periods, which could have a material adverse effect on our business, financial condition or results of operations.

Our recent results do not indicate our future results and may not provide guidance to assess the risk of an investment in our common stock.

We are unlikely to sustain our historical rate of growth and may not even be able to expand our business at all. Further, our growth in prior years may distort some of our historical financial ratios and statistics. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. If we are not able to successfully grow our business, our financial condition and results of operations could be adversely affected.

We may not be able to raise the additional capital we need to grow and, as a result, our ability to expand our operations could be materially impaired.

Federal and state regulatory authorities require us and our bank subsidiary to maintain adequate levels of capital to support our operations. While we believe that our existing capital (which well exceeds the federal and state capital requirements) will be sufficient to support our current operations, anticipated expansion and potential acquisitions, factors such as faster than anticipated growth, reduced earnings levels, operating losses, changes in economic conditions, revisions in regulatory requirements, or additional acquisition opportunities may lead us to seek additional capital.

Our ability to raise additional capital, if needed, will depend on our financial performance and on conditions in the capital markets at that time, which are outside our control. If we need additional capital but cannot raise it on terms acceptable to us, our ability to expand our operations could be materially impaired, our business, financial condition, results of operations and prospects may be adversely affected, and our stock price may decline.

Our growth and expansion strategy may not be successful, and our market value and profitability may suffer.

Growth through the acquisition of banks or specific bank assets or liabilities, including FDIC-assisted transactions, and de novo branching represent important components of our business strategy. Bank acquisitions are subject to regulatory approval, and we cannot assure that we will be able to obtain approval for a proposed acquisition in a timely manner or at all. Any future acquisitions we might make will also be accompanied by other risks commonly encountered in acquisitions. These risks include, among other things:

- credit risk associated with the acquired bank’s loans and investments;
- the use of inaccurate estimates and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets;
- the potential exposure to unknown or contingent liabilities related to the acquisition;
- the time and expense required to integrate an acquisition;
- the effectiveness of integrating operations, personnel and customers;
- risks of impairment to goodwill or other than temporary impairment; and
- potential disruption of our ongoing business.

We expect that competition for suitable acquisition candidates may be significant. We may compete with other banks or financial service companies with similar acquisition strategies, many of which are larger and have greater financial and other resources. We cannot assure you that we will be able to successfully identify and acquire suitable acquisition targets on acceptable terms and conditions.

We may continue to have opportunities from time to time to acquire the assets and liabilities of failed banks in FDIC-assisted transactions. These acquisitions involve risks similar to acquiring existing banks even though the FDIC might provide assistance to mitigate certain risks such as sharing in exposure to loan losses and providing indemnification against certain liabilities of the failed institution. However, because these acquisitions are structured in a manner that would not allow us the time normally associated with preparing for integration of an acquired institution, we may face additional risks in FDIC-assisted transactions. These risks include, among other things, the loss of customers, strain on management resources related to collection and management of problem loans and problems related to integration of personnel and operating systems.

In addition to the acquisition of existing financial institutions or their assets or liabilities, as opportunities arise, we may grow through de novo branching. De novo branching, and any acquisition carry with them numerous risks, including the following:

- the inability to obtain all required regulatory approvals;
- the significant upfront costs and anticipated operating losses associated with establishing a de novo branch or a new bank;
- the inability to secure the services of qualified senior management;
- the local market receptivity for branches established or banks acquired outside of those markets in which we currently maintain a material presence;
- the local economic conditions within the market to be served by the de novo branch or new bank;
- the inability to obtain attractive locations within a new market at a reasonable cost; and
- the additional strain on management resources and internal systems and controls.

We cannot assure that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions (including FDIC-assisted transactions) and de novo branching. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value and profitability.

If we acquire additional banks or bank assets in the future, there may be undiscovered risks or losses associated with such acquisitions which would have a negative impact upon our future income.

Our growth strategy includes strategic acquisitions of banks or bank assets. We have acquired 22 banks since we started our first subsidiary bank in 1999, including a total of 17 banks since 2010. We will continue to consider future strategic acquisitions, with a primary focus on Arkansas, Florida, South Alabama and other nearby markets. In most cases, our acquisition of a bank includes the acquisition of all or a substantial portion of the target bank's assets and liabilities, including all or a substantial portion of its loan portfolio, although we have in the past acquired and may in the future acquire specific lending divisions or loan portfolios. There may be instances when we, under our normal operating procedures, may find after the acquisition that there may be additional losses or undisclosed liabilities with respect to the assets and liabilities of the target bank, and, with respect to its loan portfolio, that the ability of a borrower to repay a loan may have become impaired, the quality of the value of the collateral securing a loan may fall below our standards, or our determination of the fair value of any such loan may be inadequate. One or more of these factors might cause us to have additional losses or liabilities, additional loan charge-offs, or increases in allowances for loan losses, which would have a negative impact upon our financial condition and results of operations.

If the goodwill that we record in connection with a business acquisition becomes impaired, it could require charges to earnings.

When we acquire a business, a portion of the purchase price of the acquisition is generally allocated to goodwill and other identifiable intangible assets. The amount of the purchase price that is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. At December 31, 2020, our goodwill and other identifiable intangible assets were $1.00 billion. Under current accounting standards, if we determine goodwill or intangible assets are impaired because, for example, the acquired business does not meet projected revenue targets or certain key employees leave, we are required to write down the carrying value of these assets. We conduct a review at least annually to determine whether goodwill is impaired. Our annual goodwill impairment evaluation performed during the fourth quarter of 2020 indicated no impairment of goodwill for our reporting segments. We cannot provide assurance, however, that we will not be required to take an impairment charge in the future. Any impairment charge would have an adverse effect on our shareholders' equity and financial results and could cause a decline in our stock price.

Competition from other financial institutions and financial service providers may adversely affect our profitability.

We face substantial competition in all phases of our operations from a variety of different competitors. We experience strong competition, not only from commercial banks, savings and loan associations and credit unions, but also from mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other financial services providers operating in or near our market areas. We compete with these institutions both in attracting deposits and in making loans.

Many of our competitors are much larger national and regional financial institutions. We may face a competitive disadvantage against them as a result of our smaller size and resources and our lack of geographic diversification. Due to their size, larger competitors can achieve economies of scale and may offer a broader range of products and services or more attractive pricing than us. If we are unable to offer competitive products and services, our business may be negatively affected. Many of our competitors are not subject to the same degree of regulation that we are as an FDIC-insured institution, which gives them greater operating flexibility and reduces their expenses relative to ours. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services.

We also compete against community banks that have strong local ties. These smaller institutions are likely to cater to the same small and mid-sized businesses that we target and to use a relationship-based approach similar to ours. In addition, our competitors may seek to gain market share by pricing below the current market rates for loans and paying higher rates for deposits. The banking business in our primary market areas is very competitive, and the level of competition facing us may increase further, which may limit our asset growth and financial results.

We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements and innovations.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services, including innovative ways that customers can make payments or manage their accounts, such as through the use of digital wallets or digital currencies. In addition to better serving customers, effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients, which may adversely affect our results of operations and future prospects.

A failure in or breach of our operational or security systems, or those of our third-party service providers, including as a result of cyber-attacks, could disrupt our business, result in unintentional disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

As a financial institution, our operations rely heavily on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in our online banking system, customer relationship management, general ledger, deposit and loan servicing and other systems. The security and integrity of our systems could be threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber-attacks, electronic fraudulent activity or attempted theft of financial assets. We cannot assure you that any such failures, interruption or security breaches will not occur, or if they do occur that they will be adequately addressed. While we have certain protective policies and procedures in place, the nature and sophistication of the threats continue to evolve. We may be required to expend significant additional resources in the future to modify and enhance our protective measures.

Additionally, we face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems. Any failures, interruptions or security breaches in our information systems could damage our reputation, result in a loss of customer business, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance.

Future hurricanes or other adverse weather events could negatively affect our local economies or disrupt our operations, which would have an adverse effect on us.

As illustrated in recent years by the impact of Hurricanes Irma and Michael, our markets in Alabama and Florida, like other coastal areas, are susceptible to hurricanes and tropical storms. Such weather events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. We cannot predict whether or to what extent damage that may be caused by future hurricanes or other weather events will affect our operations or the economies in our market areas, but such weather events could result in a decline in loan originations, a decline in the value or destruction of properties or other collateral securing our loans and an increase in the delinquencies, foreclosures and loan losses. Our business or results of operations may be adversely affected by these and other negative effects of hurricanes or other significant weather events.

We may incur environmental liabilities with respect to properties to which we take title.

A significant portion of our loan portfolio is secured by real property. In the course of our business, we may own or foreclose and take title to real estate and could become subject to environmental liabilities with respect to these properties. In addition, we acquire branches and real estate in connection with our acquisitions of banks. We may become responsible to a governmental agency or third parties for property damage, personal injury, investigation and clean-up costs incurred by those parties in connection with environmental contamination or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with environmental investigation or remediation activities could be substantial. If we were to become subject to significant environmental liabilities, it could have a material adverse effect on our results of operations and financial condition.

Our operations could be interrupted if certain external vendors on which we rely experience difficulty, terminate their services or fail to comply with banking laws and regulations.

We depend to a significant extent on relationships with third party service providers. Specifically, we utilize third-party core banking services and receive credit card and debit card services, branch capture services, Internet banking services and services complementary to our banking products from various third-party service providers. If these third-party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. It may be difficult for us to replace some of our third-party vendors, particularly vendors providing our core banking, credit card and debit card services, in a timely manner if they were unwilling or unable to provide us with these services in the future for any reason. If an interruption were to continue for a significant period of time, it could have a material adverse effect on our business, financial condition or results of operations. Even if we are able to replace them, it may be at higher cost to us, which could have a material adverse effect on our business, financial condition or results of operations. In addition, if a third-party provider fails to provide the services we require, fails to meet contractual requirements, such as compliance with applicable laws and regulations, or suffers a cyber-attack or other security breach, our business could suffer economic and reputational harm that could have a material adverse effect on our business, financial condition or results of operations.

Our earnings could be adversely impacted by incidences of fraud and compliance failure.

Financial institutions are inherently exposed to fraud risk. A fraud can be perpetrated by a customer of our bank subsidiary, an employee, a vendor, or members of the general public. We are most subject to fraud and compliance risk in connection with the origination of loans, ACH transactions, wire transactions, ATM transactions, and checking transactions. Our largest fraud risk, associated with the origination of loans, includes the intentional misstatement of information in property appraisals or other underwriting documentation provided to us by third parties. Compliance risk is the risk that loans are not originated in compliance with applicable laws and regulations and our standards. There can be no assurance that we can prevent or detect acts of fraud or violation of law or our compliance standards by the third parties that we deal with. Repeated incidences of fraud or compliance failures would adversely impact the performance of our loan portfolio.

Our banking relationships with the Cuban government and Banco Internacional de Comercia, S.A. ("BICSA") may increase our compliance risk and compliance costs.

U.S. persons, including U.S. banks, are restricted in their ability to establish relationships and engage in transactions with Cuba and Cuban persons pursuant to the existing U.S. embargo and the Cuban Assets Control Regulations. However, as a result of our acquisition of Stonegate Bank in 2017, we maintain a customer relationship to handle the accounts for Cuba's diplomatic missions at the United Nations and for the Cuban Interests Section (now the Cuban Embassy) in Washington, D.C. This relationship was established in May 2015 pursuant to a special license granted to Stonegate Bank by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") in connection with the reestablishment of diplomatic relations between the U.S. and Cuba. In July 2015, Stonegate Bank established a correspondent banking relationship with Banco Internacional de Comercio, S.A. ("BICSA") in Havana, Cuba.

Cross-border correspondent banking relationships pose unique risks because they create situations in which a U.S. financial institution will be handling funds from a foreign financial institution whose customers may not be transparent to the U.S. financial institution. Moreover, Cuban financial institutions are not subject to the same or similar regulatory guidelines as U.S. banks; therefore, these foreign institutions may pose a higher money laundering risk to their respective U.S. bank correspondent(s). Investigations have determined that, in the past, foreign correspondent accounts have been used by drug traffickers and other criminal elements to launder funds. Shell companies are sometimes used in the layering process to hide the true ownership of accounts at foreign correspondent financial institutions. Because of the large amount of funds, multiple transactions, and the U.S. bank's potential lack of familiarity with a foreign correspondent financial institution's customer, criminals and terrorists can more easily conceal the source and use of illicit funds. Consequently, we may have a higher risk of noncompliance with the Bank Secrecy Act and Anti-Money Laundering ("BSA/AML") rules due to our correspondent banking relationship with BICSA and will likely need to more closely monitor transactions related to correspondent accounts in Cuba, potentially resulting in increased compliance costs. Our failure to strictly adhere to the terms and requirements of our OFAC license or our failure to adequately manage our BSA/AML compliance risk in light of our correspondent banking relationship with BICSA could result in regulatory or other actions being taken against us, which could significantly increase our compliance costs and materially and adversely affect our results of operations.

Risks Related to Owning Our Stock

The rights of our common shareholders are subordinate to the holders of any debt securities that we may issue from time to time and may be subordinate to the holders of any series of preferred stock that may issue in the future.

On April 3, 2017, we issued $300.0 million of 5.625% fixed-to-floating rate subordinated notes, which mature in 2027. Because these subordinated notes are senior to our shares of common stock, in the event of our bankruptcy, dissolution or liquidation, the holders of the subordinated notes must be satisfied before any distributions can be made to the holders of our common stock.

As of December 31, 2020, we also have $73.3 million of outstanding subordinated debentures issued in connection with trust preferred securities. Payments of the principal and interest on the trust preferred securities are unconditionally guaranteed by us. The subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the holders of our common stock. We have the right to defer distributions on the subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid to holders of our capital stock. If we elect to defer or if we default with respect to our obligations to make payments on these subordinated debentures, this would likely have a material adverse effect on the market value of our common stock.

Our board of directors has the authority to issue in the aggregate up to 5,500,000 shares of preferred stock, and to incur senior or subordinated indebtedness, generally without shareholder approval. Our preferred stock could be issued with voting, liquidation, dividend and other rights that may be superior to the rights of our common stock. In addition, like our outstanding subordinated debentures, any future indebtedness that we incur would be expected to be senior to our common stock with respect to payment upon liquidation, dissolution or winding up. Accordingly, common shareholders bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings will negatively affect the market price of our common stock.

We may be unable to, or choose not to, pay dividends on our common stock.

Although we have paid a quarterly dividend on our common stock since 2003 and expect to continue this practice, we cannot assure you of our ability to continue. Our ability to pay dividends depends on the following factors, among others:

- We may not have sufficient earnings since our primary source of income, the payment of dividends to us by our bank subsidiary, is subject to federal and state laws that limit the ability of that bank to pay dividends.

- Federal Reserve Board policy requires bank holding companies to pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition.

- Before dividends may be paid on our common stock in any year, payments must be made on our subordinated debentures.

- Our board of directors may determine that, even though funds are available for dividend payments, retaining the funds for internal uses, such as expansion of our operations, is a better strategy.

If we fail to pay dividends, capital appreciation, if any, of our common stock may be the sole opportunity for gains on an investment in our common stock. In addition, in the event our bank subsidiary becomes unable, due to regulatory restrictions, capital planning needs or otherwise, to pay dividends to us, we may not be able to service our debt, pay our other obligations or pay dividends on our common stock. Accordingly, our inability to receive dividends from our bank subsidiary could also have a material adverse effect on our business, financial condition and results of operations and the value of your investment in our common stock.

Our stock trading volume may not provide adequate liquidity for investors.

Although shares of our common stock are listed for trading on the NASDAQ Global Select Market, the average daily trading volume in the common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the daily average trading volume of our common stock, significant sales of the common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of our common stock.

Item 1B. UNRESOLVED STAFF COMMENTS

There are currently no unresolved Commission staff comments received by the Company more than 180 days prior to the end of the fiscal year covered by this annual report.

Item 2. PROPERTIES

The Company's main office is located in a Company-owned 33,000 square foot building located at 719 Harkrider Street in downtown Conway, Arkansas. As of December 31, 2020, our bank subsidiary owned or leased a total of 77 branches located in Arkansas, 78 branches in Florida, five branches in South Alabama and one branch in New York City. The Company also owns or leases other buildings that provide space for operations, mortgage lending and other general purposes. We believe that our banking and other offices are in good condition and are suitable to our needs.

Item 3. LEGAL PROCEEDINGS

While we and our bank subsidiary and other affiliates are from time to time parties to various legal proceedings arising in the ordinary course of their business, management believes, after consultation with legal counsel, that there are no proceedings threatened or pending against us or our bank subsidiary or other affiliates that will, individually or in the aggregate, have a material adverse effect on our business or consolidated financial condition.

Item 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NASDAQ Global Select Market under the symbol "HOMB." As of February 25, 2021, there were approximately 1,322 stockholders of record of the Company's common stock.

Our policy is to declare regular quarterly dividends based upon our earnings, financial position, capital improvements and such other factors deemed relevant by the Board of Directors. The dividend policy is subject to change, however, and the payment of dividends is not necessarily dependent upon the availability of earnings and future financial condition. Information regarding regulatory restrictions on our ability to pay dividends is discussed in "Supervision and Regulation – Payment of Dividends."

During the three months ended December 31, 2020, the Company utilized a portion of its stock repurchase program most recently amended and approved by the Board of Directors on January 18, 2019. On January 22, 2021, the Board of Directors of the Company authorized the repurchase of up to an additional 20,000,000 shares of the Company's common stock under this repurchase program. The following table sets forth information with respect to purchases made by or on behalf of the Company of shares of the Company's common stock during the periods indicated:

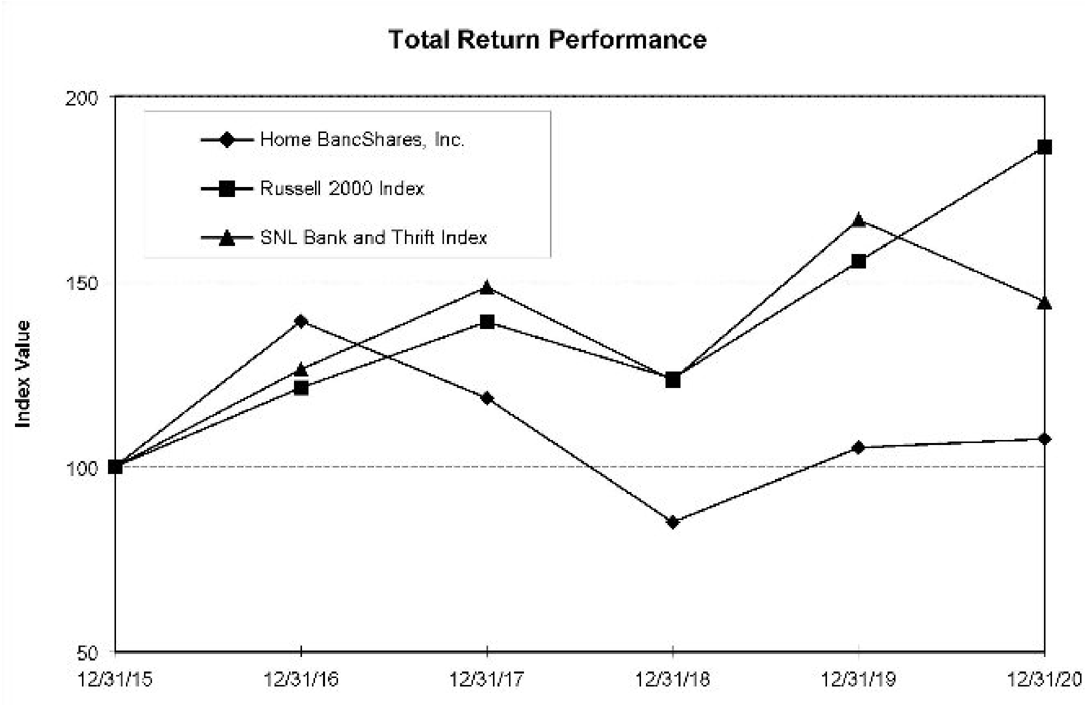
Issuer Purchases of Equity Securities

Period	Number of Shares Purchased	Average Price Paid Per Share Purchased	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs(1)
October 1 through October 31, 2020	—	$ —	—	3,953,665
November 1 through November 30, 2020	90,000	16.13	90,000	3,863,665
December 1 through December 31, 2020	20,000	18.90	20,000	3,843,665
Total	110,000		110,000	

(1) The above described stock repurchase program has no expiration date.

Performance Graph

Below is a graph which summarizes the cumulative return earned by the Company's stockholders since December 31, 2015, compared with the cumulative total return on the Russell 2000 Index and SNL Bank and Thrift Index. This presentation assumes that the value of the investment in the Company's common stock and each index was $100.00 on December 31, 2015 and that subsequent cash dividends were reinvested.



	Period Ending					
Index	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/18**	**12/31/19**	**12/31/20**
Home BancShares, Inc.	100.00	139.25	118.53	85.02	105.13	107.49
Russell 2000 Index	100.00	121.31	139.08	123.76	155.35	186.36
SNL Bank and Thrift Index	100.00	126.25	148.45	123.32	166.67	144.61

Item 6. SELECTED FINANCIAL DATA.

Summary Consolidated Financial Data

	As of or for the Years Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars and shares in thousands, except per share data)				
Income statement data:					
Total interest income	$ 675,962	$ 717,988	$ 685,368	$ 520,251	$ 436,537
Total interest expense	93,407	154,771	124,355	64,346	30,579
Net interest income	582,555	563,217	561,013	455,905	405,958
Provision for credit losses	112,264	1,325	4,322	44,250	18,608
Net interest income after provision for credit losses	470,291	561,892	556,691	411,655	387,350
Non-interest income	111,786	99,516	102,832	99,636	87,051
Non-interest expense	304,374	275,787	264,003	240,208	191,755
Income before income taxes	277,703	385,621	395,520	271,083	282,646
Income tax expense	63,255	96,082	95,117	136,000	105,500
Net income	$ 214,448	$ 289,539	$ 300,403	$ 135,083	$ 177,146
Per share data:					
Basic earnings per common share	$ 1.30	$ 1.73	$ 1.73	$ 0.90	$ 1.26
Diluted earnings per common share	1.30	1.73	1.73	0.89	1.26
Book value per common share	15.78	15.10	13.76	12.70	9.45
Tangible book value per common share (non-GAAP)(1)(2)	9.70	9.12	7.90	7.07	6.63
Dividends – common	0.5300	0.5100	0.4600	0.4000	0.3425
Average common shares outstanding	165,373	167,804	173,657	150,806	140,418
Average diluted shares outstanding	165,373	167,804	174,124	151,528	140,713
Performance ratios:					
Return on average assets	1.33%	1.93%	2.06%	1.17%	1.85%
Return on average assets excluding intangible Amortization (non-GAAP)(3)	1.45	2.10	2.25	1.26	1.95
Return on average common equity	8.57	12.01	13.17	8.23	14.08
Return on average tangible common equity excluding intangible amortization (non-GAAP)(1)(4)	14.59	20.83	23.62	12.92	20.82
Net interest margin(5)	4.02	4.29	4.42	4.51	4.81
Efficiency ratio	42.63	40.34	38.48	41.89	37.65
Efficiency ratio, as adjusted (non-GAAP)(6)	40.36	40.55	37.64	37.61	36.55
Asset quality:					
Non-performing assets to total assets	0.48%	0.43%	0.51%	0.44%	0.81%
Non-performing loans to total loans	0.66	0.50	0.58	0.43	0.85
Allowance for credit losses to non-performing loans	331.10	186.20	169.35	246.70	126.74
Allowance for credit losses to total loans	2.19	0.94	0.98	1.07	1.08
Net charge-offs to average total loans	0.11	0.08	0.05	0.17	0.11

Summary Consolidated Financial Data – Continued

	As of or for the Years Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars and shares in thousands, except per share data)				
Balance sheet data (period end):					
Total assets	$ 16,398,804	$ 15,032,047	$ 15,302,438	$ 14,449,760	$ 9,808,465
Investment securities – available-for-sale	2,473,781	2,083,838	1,785,862	1,663,517	1,072,920
Investment securities – held-to-maturity	—	—	192,776	224,756	284,176
Loans receivable	11,220,721	10,869,710	11,071,879	10,331,188	7,387,699
Allowance for credit losses	245,473	102,122	108,791	110,266	80,002
Intangible assets	1,003,753	994,980	1,001,304	977,300	396,294
Non-interest-bearing deposits	3,266,753	2,367,091	2,401,232	2,385,252	1,695,184
Total deposits	12,725,790	11,278,383	10,899,778	10,388,502	6,942,427
Subordinated debentures (trust preferred securities)	370,326	369,557	368,790	368,031	60,826
Stockholders' equity	2,605,758	2,511,531	2,349,886	2,204,291	1,327,490
Capital ratios:					
Common equity to assets	15.89%	16.71%	15.36%	15.25%	13.53%
Tangible common equity to tangible assets (non-GAAP)(1)(7)	10.41	10.80	9.43	9.11	9.89
Common equity Tier 1 capital	13.42	12.44	11.34	10.86	11.30
Tier 1 leverage ratio(8)	10.85	11.27	10.36	9.98	10.63
Tier 1 risk-based capital ratio	14.01	13.03	11.93	11.48	12.01
Total risk-based capital ratio	17.75	16.35	15.31	15.05	12.97
Dividend payout - common	40.88	29.57	26.59	44.69	27.15

(1) Tangible calculations eliminate the effect of goodwill and acquisition-related intangible assets and the corresponding amortization expense on a tax-effected basis.

(2) See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Table 25," for the non-GAAP tabular reconciliation.

(3) See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Table 26," for the non-GAAP tabular reconciliation.

(4) See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Table 27," for the non-GAAP tabular reconciliation.

(5) Fully taxable equivalent (assuming an income tax rate of 39.225% for 2016-2017, 26.135% for 2018, 25.819% for 2019 and 26.135% for 2020).

(6) See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Table 29," for the non-GAAP tabular reconciliation.

(7) See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Table 28," for the non-GAAP tabular reconciliation.

(8) Leverage ratio is Tier 1 capital to quarterly average total assets less intangible assets and gross unrealized gains/losses on available-for-sale investment securities.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis presents our consolidated financial condition and results of operations for the years ended December 31, 2020, 2019 and 2018. This discussion should be read together with the "Summary Consolidated Financial Data," our consolidated financial statements and the notes thereto, and other financial data included in this document. In addition to the historical information provided below, we have made certain estimates and forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these estimates and in the forward-looking statements as a result of certain factors, including those discussed in the section of this document captioned "Risk Factors," and elsewhere in this document. Unless the context requires otherwise, the terms "Company," "HBI," "us," "we" and "our" refer to Home BancShares, Inc. on a consolidated basis.

General

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly owned bank subsidiary, Centennial Bank ("Centennial"). As of December 31, 2020, we had, on a consolidated basis, total assets of $16.40 billion, loans receivable, net of $10.98 billion, total deposits of $12.73 billion, and stockholders' equity of $2.61 billion.

We generate most of our revenue from interest on loans and investments, service charges, and mortgage banking income. Deposits and FHLB borrowed funds are our primary source of funding. Our largest expenses are interest on our funding sources, salaries and related employee benefits and occupancy and equipment. We measure our performance by calculating our net interest margin, return on average assets and return on average common equity. We also measure our performance by our efficiency ratio and efficiency ratio, as adjusted (non-GAAP). The efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income. The efficiency ratio, as adjusted, is a meaningful non-GAAP measure for management, as it excludes certain items and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding certain items such as merger expenses, hurricane expenses and/or gains and losses.

Table 1: Key Financial Measures

	As of or for the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands, except per share data)		
Total assets	$ 16,398,804	$ 15,032,047	$ 15,302,438
Loans receivable	11,220,721	10,869,710	11,071,879
Allowance for credit losses	(245,473)	(102,122)	108,791
Total deposits	12,725,790	11,278,383	10,899,778
Total stockholders' equity	2,605,758	2,511,531	2,349,886
Net income	214,448	289,539	300,403
Basic earnings per share	1.30	1.73	1.73
Diluted earnings per share	1.30	1.73	1.73
Book value per share	15.78	15.10	13.76
Tangible book value per share (non-GAAP)(1)	9.70	9.12	7.90
Net interest margin	4.02%	4.29%	4.42%
Efficiency ratio	42.63	40.34	38.48
Efficiency ratio, as adjusted (non-GAAP)(2)	40.36	40.55	37.64
Return on average assets	1.33	1.93	2.06
Return on average common equity	8.57	12.01	13.17

(1) See Table 25 for the non-GAAP tabular reconciliation.

(2) See Table 29 for the non-GAAP tabular reconciliation.

2020 Overview

Recent Developments – COVID-19

The rapid spread of the novel coronavirus ("COVID-19") hit the United States during the first quarter of 2020 and has continued through December 31, 2020. In March 2020, the World Health Organization declared COVID-19 a global pandemic and the United States declared a National Public Health Emergency. The COVID-19 pandemic has severely restricted the economic activity in our markets. In response to the COVID-19 pandemic, the state governments have taken preventative or protective actions, such as imposing restrictions on travel and business operations, advising or requiring individuals to limit or forego their time outside of their homes, and ordering temporary closures of businesses that have been deemed to be non-essential. These actions have had a significant impact on markets driven by supply chain and production disruptions, workforce restrictions, travel restrictions, retail closures, and reduced consumer spending and sentiment, amongst other factors. The ultimate extent of the impact of the COVID-19 pandemic on our business, financial condition and results of operations is currently uncertain and will depend on various developments and other factors, including, among others, the duration and scope of the pandemic, as well as governmental, regulatory and private sector responses to the pandemic, and the associated impacts on the economy, financial markets and our customers, employees and vendors.

While our business has been designated an essential business, which allows us to continue to serve our customers, we serve many customers that have been deemed, or who are employed by businesses that have been deemed, to be non-essential. Further, many of our customers that have been categorized to date as essential businesses, or who are employed by businesses that have been categorized as essential businesses, have been adversely affected by the COVID-19 pandemic.

Our business, financial condition and results of operations generally rely upon the ability of our borrowers to repay their loans, the value of collateral underlying our secured loans, and demand for loans and other products and services we offer, which are highly dependent on the business environment in our primary markets where we operate and in the United States as a whole. The COVID-19 pandemic has had a significant impact on our business and operations. We have reopened our banking lobbies in order to serve customers in person, while still offering service through drive-thru tellers as well as electronic and online means. To support the health and well-being of our employees, we continue to support working remotely. To support our customers or to comply with law, we have deferred loan payments for certain consumer and commercial customers, and we have suspended residential property foreclosure sales, evictions, and involuntary automobile repossessions, and are offering fee waivers, payment deferrals, and other expanded assistance for automobile, mortgage, small business and personal lending customers. Future governmental actions may require these and other types of customer-related responses.

As of December 31, 2020, our loan deferrals decreased to $330.7 million on 56 loans from the June 30, 2020 balance of $3.18 billion on 4,209 loans. Of the 56 loans currently on deferment, 51 of our loans totaling $271.1 million chose interest only deferment and now have returned to paying interest monthly, with the majority of these loans having modifications for 18-24 month interest only payments with a return to full principal and interest payments at the end of the modification term. The hospitality sector has been most negatively impacted by COVID-19 and represents 52.0% of the deferment balance as of December 31, 2020. The geographic distribution of these deferrals is similar through all of our markets. Our review of deferment requests required updated interim operating statements, balance sheet and liquidity verifications, and validation of the current risk rating.

In April 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES" Act) established a new federal economic relief program administered by the Small Business Administration ("SBA") called the Paycheck Protection Program ("PPP"), which provides for 100% federally guaranteed loans to be issued by participating private financial institutions to small businesses for payroll and certain other permitted expenses. During 2020, as a participating lender, we have generated 8,702 loans to both existing and new customers. As of December 31, 2020, the outstanding PPP loan balances were $691.7 million. The average loan size is $88,000.

We also are monitoring the impact of COVID-19 on the valuation of goodwill. Our stock price has historically traded above its per share book value and tangible book value (non-GAAP). However, at certain times during 2020, our stock price fell below book value. This drop in stock was in reaction to the COVID-19 pandemic, which has affected stock prices of companies in almost all industries. During 2020, our common stock traded as low as $9.71 per share; however, our common stock closed on December 31, 2020 at $19.48 per share, which was above book value of $15.78 per share and above tangible book value (non-GAAP) of $9.70 per share. The Company updated its valuation of the carrying value of goodwill as of December 31, 2020 based on the drop in the Company's stock price during 2020. However, taking into account the effect that the COVID-19 pandemic has had and continues to have on our local economy, we determined that no impairment charge to goodwill was necessary at this time. We will continue to monitor the impact of COVID-19 on the Company's business, operating results, cash flows and financial condition and will reevaluate any impairment of our goodwill should economic or market conditions further deteriorate as a result of the pandemic.

Results of Operations for the Years Ended December 31, 2020 and 2019

Our net income decreased $75.1 million, or 25.9%, to $214.4 million for the year ended December 31, 2020, from $289.5 million for the same period in 2019. On a diluted earnings per share basis, our earnings were $1.30 per share for the year ended December 31, 2020 and $1.73 per share for the year ended December 31, 2019. As a result of COVID-19, the unemployment rate projections significantly increased from January 1, 2020 through December 31, 2020. Additionally, the ongoing uncertainties related to the COVID-19 pandemic have resulted in the Company increasing reserves on deferred loans and loans 30 days or more past maturity. These impacts of COVID-19 have resulted in the Company recording a $102.1 million provision for credit losses on loans, an $842,000 provision for credit losses on investment securities, and a $2.0 million write-down for the fair value adjustment on marketable securities. The Company also recorded $17.0 million in unfunded commitments expense which was due to an increase in the expected funding percentages for the Company's unfunded commitments as well as an increase in the unemployment rate projections from January 1, 2020 to December 31, 2020, due to COVID-19. We incurred $10.0 million of expense as a result of our LH-Finance acquisition, which we completed on February 29, 2020, including $9.3 million for the provision for credit losses and $711,000 of acquisition expenses. The acquired loan portfolio is now housed in our Shore Premier Finance ("SPF") division. The Company also had $1.1 million of expense for outsourced special projects, $10.2 million of special dividend income from one of our equity investments and $981,000 of increased depreciation expense related to the second quarter write-off of the Company's Marathon, Florida branch office, which the Company made the strategic decision to demolish and rebuild at its existing location. The summation of all these items resulted in net expense of $123.8 million, or $91.5 million after tax.

Total interest income decreased $42.0 million, or 5.9%, and non-interest expense increased $28.6 million, or 10.4%. This was offset by a $61.4 million, or 39.6%, decrease in total interest expense and a $12.3 million, or 12.3%, increase in non-interest income. The primary drivers of the decrease in interest income were a $33.0 million decrease in loan interest income, a $5.7 million decrease in investment security income and a $3.3 million decrease in interest income on deposits with other banks. The increase in non-interest expense was primarily due to a $9.8 million increase in salaries and employee benefits, a $3.0 million increase in occupancy and equipment expense, a $2.9 million increase in data processing expense and an $13.0 million increase in other operating expenses resulting from a $17.0 million increase in our reserve for unfunded commitments for the year ended December 31, 2020. The decrease in interest expense was due to a $51.0 million decrease in interest on deposits and a $7.7 million decrease in interest on FHLB borrowed funds. The increase in non-interest income was primarily due to a $14.8 million increase in mortgage lending income, a $4.8 million increase in dividend income from FHLB, FRB, FNBB and other equity investments, and a $3.8 million increase in other income, partially offset by a $4.5 million decrease in service charges on deposit accounts, a $3.4 million decrease in other service charges and fees and a $2.0 million write-down for the fair value adjustment on marketable securities. Income tax expense decreased by $32.8 million during the year due a reduction in net income as well as $3.7 million in tax expense incurred in the third quarter of 2019 due to the Company surrendering $47.5 million of underperforming separate account bank owned life insurance.

Our net interest margin decreased from 4.29% for the year ended December 31, 2019 to 4.02% for the year ended December 31, 2020. The yield on interest earning assets was 4.65% and 5.45% for the year ended December 31, 2020 and 2019, respectively, as average interest earning assets increased from $13.26 billion to $14.66 billion. The increase in average earning assets is primarily the result of a $542.5 million increase in average loans receivable, a $666.6 million increase in average interest-bearing balances due from banks and a $187.9 million increase in average investment securities. Average PPP loan balances were $547.3 million for the year ended December 31, 2020. These loans bear interest at 1.00% plus the accretion of the origination fee. We recognized total interest income of $19.2 million on PPP loans for the year ended December 31, 2020. The PPP loans were dilutive to the net interest margin by 2 basis points for the year ended December 31, 2020. The COVID-19 pandemic and the resulting governmental response have created a significant amount of excess liquidity in the market. As a result, we had an increase of $666.6 million in average interest-bearing cash balances for the year ended December 31, 2020 compared to the year ended December 31, 2019. This excess liquidity was dilutive to the net interest margin by 19 basis points. For the year ended December 31, 2020 and 2019, we recognized $27.4 million and $35.9 million, respectively, in total net accretion for acquired loans and deposits. The reduction in accretion was dilutive to the net interest margin by 5 basis points. We recognized $2.1 million event interest income for the year ended December 31, 2020 compared to $3.3 million for the year ended December 31, 2019. This lowered the net interest margin by 1 basis point. The rate on interest bearing liabilities was 0.89% and 1.55% for the year ended December 31, 2020 and 2019, respectively, as average interest-bearing liabilities increased from $10.02 billion to $10.50 billion. The reduction in yield on loans due to the low interest rate on PPP loans, the impact of the excess liquidity, the reduction in accretion income, and the reduction in loan payoff events, reduced the net interest margin by 27 basis points for the year ended December 31, 2020.

Our efficiency ratio was 42.63% for the year ended December 31, 2020, compared to 40.34% for the same period in 2019. For the year ended December 31, 2020, our efficiency ratio, as adjusted (non-GAAP), was 40.36%, an improvement of 19 basis points from the 40.55% reported for the year ended December 31, 2019. (See Table 23 for the non-GAAP tabular reconciliation).

Our return on average assets was 1.33% for the year ended December 31, 2020, compared to 1.93% for the same period in 2019. Our annualized return on average common equity was 8.57% for the year ended December 31, 2020, compared to 12.01% for the same period in 2019.

Financial Condition as of and for the Years Ended December 31, 2020 and 2019

Our total assets as of December 31, 2020 increased $1.37 billion to $16.40 billion from the $15.03 billion reported as of December 31, 2019. Cash and cash equivalents increased $773.2 million, or 157.6%. The COVID-19 crisis and the accompanying governmental response has created a tremendous amount of excess liquidity in the market. Our loan portfolio balance increased $351.0 million to $11.22 billion as of December 31, 2020, from $10.87 billion as of December 31, 2019. The increase in the loan portfolio is due to the $691.7 million of PPP loans as well as the acquisition of $406.2 million of loans from LH-Finance during the first quarter of 2020, which was offset by $747.0 million in organic loan decline for the year ended December 31, 2020. Total deposits increased $1.45 billion to $12.73 billion as of December 31, 2020 compared to $11.28 billion as of December 31, 2019, which was due to customers holding higher deposit balances in response to the COVID-19 pandemic as well as the resulting governmental response to the pandemic. Stockholders' equity increased $94.2 million to $2.61 billion as of December 31, 2020, compared to $2.51 billion as of December 31, 2019. The increase in stockholders' equity is primarily associated with the $214.4 million in net income and the $27.9 million increase in accumulated other comprehensive income, which were partially offset by the $44.0 million impact of the adoption of ASC 326, $87.7 million of shareholder dividends paid and the repurchase of $25.7 million of our common stock during 2020. The improvement in stockholders' equity was 3.8% for the year ended December 31, 2020 compared to December 31, 2019.

As of December 31, 2020, our non-performing loans increased to $74.1 million, or 0.66%, of total loans from $54.8 million, or 0.50%, of total loans as of December 31, 2019. The allowance for credit losses as a percentage of non-performing loans increased to 331.10% as of December 31, 2020, compared to 186.20% as of December 31, 2019. Non-performing loans from our Arkansas franchise were $24.1 million at December 31, 2020 compared to $17.9 million as of December 31, 2019. Non-performing loans from our Florida franchise were $43.1 million at December 31, 2020 compared to $34.7 million as of December 31, 2019. Non-performing loans from our Alabama franchise were $530,000 at December 31, 2020 compared to $429,000 as of December 31, 2019. Non-performing loans from our SPF franchise were $3.6 million at December 31, 2020 compared to $1.8 million as of December 31, 2019. Non-performing loans from our Centennial CFG franchise were $2.8 million at December 31, 2020 compared to zero as of December 31, 2019.

As of December 31, 2020, our non-performing assets increased to $78.6 million, or 0.48%, of total assets from $64.4 million, or 0.43%, of total assets as of December 31, 2019. Non-performing assets from our Arkansas franchise were $25.6 million at December 31, 2020 compared to $22.9 million as of December 31, 2019. Non-performing assets from our Florida franchise were $46.0 million at December 31, 2020 compared to $39.2 million as of December 31, 2019. Non-performing assets from our Alabama franchise were $564,000 at December 31, 2020 compared to $463,000 as of December 31, 2019. Non-performing assets from our SPF franchise were $3.6 million at December 31, 2020 compared to $1.8 million as of December 31, 2019. Non-performing assets from our CFG franchise were $2.8 million at December 31, 2020 compared to zero as of December 31, 2019.

The $2.8 million balance of non-accrual loans for our Centennial CFG market consists of one loan that is assessed for Credit risk by the Federal Reserve under the Shared National Credit Program. The decision to place this loan on non-accrual status was made by the Federal Reserve and not the Company. The loan that makes up the total balance is still current on both principal and interest. However, all interest payments are currently being applied to the principal balance. Because the Federal Reserve required us to place this loan on non-accrual status, we have reversed any interest that had accrued subsequent to the non-accrual date designated by the Federal Reserve.

2019 Overview

Results of Operations for the Years Ended December 31, 2019 and 2018

Our net income decreased $10.9 million, or 3.62%, to $289.5 million for the year ended December 31, 2019, from $300.4 million for the same period in 2018. Total interest expense increased $30.4 million, or 24.5%, non-interest expense increased $11.8 million, or 4.5%, and non-interest income decreased $3.3 million or 3.2%. This was partially offset by a $32.6 million, or 4.8%, increase in total interest income. The increase in interest income was primarily due to a $27.7 million increase in loan interest income. The main components of the decrease in non-interest income were a $2.5 million decrease in other service charges and fees, a $1.6 million decrease in gain (loss) on OREO, net, and a $3.3 million decrease in other income which was partially offset by a $2.0 million increase in dividends from the Federal Home Loan Bank (“FHLB”), Federal Reserve Bank (“FRB”), First National Bankers’ Bank (“FNBB”) and other dividends and a $1.9 million increase in mortgage lending income. The primary driver of the increase in interest expense was a $34.5 million, or 43.4%, increase in interest expense on deposits. The increase in non-interest expense was driven by a $10.6 million increase in salaries and employee benefits. Income tax expense increased by $965,000 for the year ended December 31, 2019.

On a diluted earnings per share basis, our earnings were $1.73 per share for each of the years ended December 31, 2019 and 2018. While net income decreased $10.9 million, the Company was able achieve a flat earnings per share for 2019 compared to 2018 as a result of being active in a share repurchase program. During 2018 and 2019, the Company repurchased 5.3 million shares and 4.5 million shares, respectively.

Our net interest margin decreased from 4.42% for the year ended December 31, 2018 to 4.29% for the year ended December 31, 2019. The yield on interest earning assets was 5.45% and 5.39% for the years ended December 31, 2019 and 2018, respectively, as average interest earning assets increased from $12.82 billion to $13.26 billion. The increase in earning assets is primarily the result of our acquisition in June 2018 and an increase in taxable investment securities. For the year ended December 31, 2019 and 2018, we recognized $35.9 million and $41.5 million, respectively, in total net accretion for acquired loans and deposits. We recognized $3.3 million in loan payoff events for the year ended December 31, 2019 compared to $7.1 million for the year ended December 31, 2018. In addition, we experienced approximately $2.0 million in increased investment premium amortization. The rate on interest bearing liabilities was 1.55% and 1.27% for the years ended December 31, 2019 and 2018, respectively, as average interest-bearing liabilities increased from $9.76 billion to $10.02 billion. The reduction in accretion income, decrease in loan payoff events and the increase in investment premium amortization reduced the net interest margin by 8 basis points for the year ended December 31, 2019.

Our efficiency ratio was 40.34% for the year ended December 31, 2019, compared to 38.48% for the same period in 2018. For year ended 2019, our efficiency ratio, as adjusted (non-GAAP), was 40.55%, which increased from the 37.64% reported for the year ended 2018 (See Table 29 for the non-GAAP tabular reconciliation). The increase in the efficiency ratio is primarily due to an $11.8 million increase in non-interest expense and a $3.3 million decrease in non-interest income which was only partially offset by a $2.2 million increase in net interest income.

Our return on average assets was 1.93% for the year ended December 31, 2019, compared to 2.06% for the same period in 2018. Our return on average common equity was 12.01% for the year ended December 31, 2019, compared to 13.17% for the same period in 2018.

Financial Condition as of and for the Years Ended December 31, 2019 and 2018

Our total assets as of December 31, 2019 decreased $270.4 million to $15.03 billion from the $15.30 billion reported as of December 31, 2018. Cash and cash equivalents decreased $167.3 million, and our loan portfolio decreased $202.2 million to $10.87 billion as of December 31, 2019, from $11.07 billion as of December 31, 2018. Stockholders' equity increased $161.6 million to $2.51 billion as of December 31, 2019, compared to $2.35 billion as of December 31, 2018. The increase in stockholders' equity is primarily associated with the $204.4 million increase in retained earnings and the $30.0 million increase in accumulated other comprehensive income which were partially offset by the repurchase of $84.9 million of our common stock during 2019. The improvement in stockholders' equity was 6.9% for the year ended December 31, 2019 compared to December 31, 2018.

As of December 31, 2019, our non-performing loans decreased to $54.8 million, or 0.50%, of total loans from $64.2 million, or 0.58%, of total loans as of December 31, 2018. The allowance for loan losses as a percentage of non-performing loans increased to 186.20% as of December 31, 2019, compared to 169.35% as of December 31, 2018. Non-performing loans from our Arkansas franchise were $17.9 million at December 31, 2019 compared to $17.4 million as of December 31, 2018. Non-performing loans from our Florida franchise were $34.7 million at December 31, 2019 compared to $43.3 million as of December 31, 2018. Non-performing loans from our Alabama franchise were $429,000 at December 31, 2019 compared to $179,000 as of December 31, 2018. Non-performing loans from our SPF franchise were $1.8 million at December 31, 2019 compared to $3.4 million as of December 31, 2018. There were no non-performing loans from our Centennial CFG franchise.

As of December 31, 2019, our non-performing assets decreased to $64.4 million, or 0.43%, of total assets from $78.0 million, or 0.51%, of total assets as of December 31, 2018. Non-performing assets from our Arkansas franchise were $22.9 million at December 31, 2019 compared to $24.0 million as of December 31, 2018. Non-performing assets from our Florida franchise were $39.2 million at December 31, 2019 compared to $50.2 million as of December 31, 2018. Non-performing assets from our Alabama franchise were $463,000 at December 31, 2019 compared to $306,000 as of December 31, 2018. Non-performing assets from our SPF franchise were $1.8 million at December 31, 2018 compared to $3.4 million as of December 31, 2018. There were no non-performing assets from our Centennial CFG franchise.

Critical Accounting Policies

Overview. We prepare our consolidated financial statements based on the selection of certain accounting policies, generally accepted accounting principles and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions. Our accounting policies are described in detail in the notes to our consolidated financial statements included as part of this document.

We consider a policy critical if (i) the accounting estimate requires assumptions about matters that are highly uncertain at the time of the accounting estimate; and (ii) different estimates that could reasonably have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on our financial statements. Using these criteria, we believe that the accounting policies most critical to us are those associated with our lending practices, including the accounting for the allowance for credit losses, foreclosed assets, investments, intangible assets, income taxes and stock options.

Revenue Recognition. Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC Topic 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied. The majority of our revenue-generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments, such as our loans, letters of credit, investment securities and mortgage lending income, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Descriptions of our revenue-generating activities that are within the scope of ASC Topic 606, which are presented in our income statements as components of non-interest income are as follows:

- Service charges on deposit accounts – These represent general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed, which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

- Other service charges and fees – These represent credit card interchange fees and Centennial CFG loan fees. The interchange fees are recorded in the period the performance obligation is satisfied which is generally the cash basis based on agreed upon contracts. Centennial CFG loan fees are based on loan or other negotiated agreements with customers and are accounted for under ASC Topic 310. Interchange fees were $14.9 million and $14.4 million for the years ended December 31, 2020 and December 31, 2019, respectively. Centennial CFG loan fees were $8.3 million and $11.2 million for the years ended December 31, 2020 and December 31, 2019, respectively.

Credit Losses. The Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective January 1, 2020. The guidance replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credits, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. ASC 326 requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses as well as the credit quality and underwriting standards of a company’s portfolio. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities management does not intend to sell or believes that it is more likely than not, they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for loans and off-balance-sheet (“OBS”) credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a one-time cumulative-effect adjustment to the allowance for credit losses of $44.0 million which was recognized through a $32.5 million adjustment to retained earnings, net of tax. This adjustment brought the beginning balance of the allowance for credit losses to $146.1 million as of January 1, 2020. In addition, the Company recorded a $15.5 million reserve on unfunded commitments, as of January 1, 2020, which was recognized through an $11.5 million adjustment to retained earnings, net of tax.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration ("PCD") that were previously classified as purchased credit impaired ("PCI") and accounted for under ASC 310-30. In 2019, the Company reevaluated its loan pools of purchased loans with deteriorated credit quality. These loans pools related specifically to acquired loans from the Heritage, Liberty, Landmark, Bay Cities, Bank of Commerce, Premier Bank, Stonegate and Shore Premier Finance acquisitions. At acquisition, a portion of these loans were recorded as purchased credit impaired loans on a pool by pool basis. Through the reevaluation of these loan pools, management determined that estimated losses for purchase credit impaired loans should be processed against the credit mark of the applicable pools. The remaining non-accretable mark was then moved to accretable mark to be recognized over the remaining weighted average life of the loan pools. The projected losses for these loans were less than the total credit mark. As such, the remaining $107.6 million of loans in these pools along with the $29.3 million in accretable yield was deemed to be immaterial and was reclassified out of the purchased credit impaired loans category. As of December 31, 2019, the Company no longer held any purchased loans with deteriorated credit quality. Therefore, the Company did not have any PCI loans upon adoption on of ASC 326 as of January 1, 2020.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2020. As of December 31, 2019, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined than an allowance for credit losses on available-for-sale securities was not deemed material. However, the Company evaluated the investment portfolio during the first quarter of 2020 and determined that an $842,000 provision for credit losses was necessary. No additional provision was deemed necessary during the remainder of 2020. See Note 3 for further discussion.

Investments – Available-for-sale. Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders' equity and other comprehensive income (loss), net of taxes. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale. The Company evaluates all securities quarterly to determine if any securities in a loss position require a provision for credit losses in accordance with ASC 326, *Measurement of Credit Losses on Financial Instruments*. The Company first assesses whether it intends to sell or is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities that do not meet these criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, and changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Investments – Held-to-Maturity. Securities held-to-maturity, which include any security for which we have the positive intent and ability to hold until maturity, are reported at historical cost adjusted for amortization of premiums and accretion of discounts. Effective January 1, 2019, as permitted by ASU 2017-12, *Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities*, the Company reclassified the prepayable held-to-maturity ("HTM") investment securities, with a fair value of $193.6 million and $834,000 in net unrealized gains as of December 31, 2018, to available-for-sale investment securities.

Loans Receivable and Allowance for Credit Losses. Except for loans acquired during our acquisitions, substantially all of our loans receivable are reported at their outstanding principal balance adjusted for any charge-offs, as it is management's intent to hold them for the foreseeable future or until maturity or payoff, except for mortgage loans held for sale. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding.

The allowance for credit losses on loans receivable is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in the national unemployment rate, commercial real estate price index, housing price index and national retail sales index.

The allowance for credit losses is measured based on call report segment as these types of loan exhibit similar risk characteristics. The identified loan segments are as follows:

- 1-4 family construction
- All other construction
- 1-4 family revolving home equity lines of credit (“HELOC”) & junior liens
- 1-4 family senior liens
- Multifamily
- Owner occupies commercial real estate
- Non-owner occupied commercial real estate
- Commercial & industrial, agricultural, non-depository financial institutions, purchase/carry securities, other
- Consumer auto
- Other consumer
- Other consumer - SPF

The allowance for credit losses for each segment is measured through the use of the discounted cash flow method. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies:

- Management has a reasonable expectation at the reporting date that troubled debt restructuring will be executed with an individual borrower.
- The extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Loans considered impaired, according to ASC 326, are loans for which, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. The aggregate amount of impairment of loans is utilized in evaluating the adequacy of the allowance for credit losses and amount of provisions thereto. Losses on impaired loans are charged against the allowance for credit losses when in the process of collection, it appears likely that such losses will be realized. The accrual of interest on impaired loans is discontinued when, in management’s opinion the collection of interest is doubtful or generally when loans are 90 days or more past due. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans are placed on non-accrual status when management believes that the borrower’s financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful, or generally when loans are 90 days or more past due. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely. Accrued interest related to non-accrual loans is generally charged against the allowance for credit losses when accrued in prior years and reversed from interest income if accrued in the current year. Interest income on non-accrual loans may be recognized to the extent cash payments are received, although the majority of payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status when principal and interest payments are less than 90 days past due, the customer has made required payments for at least six months, and we reasonably expect to collect all principal and interest.

Acquisition Accounting and Acquired Loans. We account for our acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. In accordance with ASC 326, the Company records both a discount and an allowance for credit losses on acquired loans. All purchased loans are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, *Fair Value Measurements*. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. Purchase credit deteriorated ("PCD") loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through the provision for credit loss.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted as unfunded commitments expense within non-interest expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Foreclosed Assets Held for Sale. Real estate and personal properties acquired through or in lieu of loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Valuations are periodically performed by management, and the real estate and personal properties are carried at fair value less costs to sell. Gains and losses from the sale of other real estate and personal properties are recorded in non-interest income, and expenses used to maintain the properties are included in non-interest expenses.

Intangible Assets. Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation specialists. The core deposit intangibles are being amortized over 48 to 121 months on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. We perform an annual impairment test of goodwill and core deposit intangibles as required by FASB ASC 350, *Intangibles - Goodwill and Other,* in the fourth quarter or more often if events and circumstances indicate there may be an impairment.

Income Taxes. We account for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. We determine deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term "more likely than not" means a likelihood of more than 50 percent; the terms "examined" and "upon examination" also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Both we and our subsidiary file consolidated tax returns. Our subsidiary provides for income taxes on a separate return basis, and remits to us amounts determined to be currently payable.

Stock Compensation. In accordance with FASB ASC 718, *Compensation - Stock Compensation,* and FASB ASC 505-50, *Equity-Based Payments to Non-Employees*, the fair value of each option award is estimated on the date of grant. We recognize compensation expense for the grant-date fair value of the option award over the vesting period of the award.

Acquisitions

LH-Finance

On February 29, 2020, the Company completed the acquisition of LH-Finance, the marine lending division of People's United Bank, N.A. The Company paid a purchase price of approximately $421.2 million in cash. LH-Finance provides direct consumer financing for USCG registered high-end sail and power boats. Additionally, LH-Finance provides inventory floor plan lines of credit to marine dealers, primarily those selling USCG documented vessels.

Including the purchase accounting adjustments, as of the acquisition date, LH-Finance had approximately $409.1 million in total assets, including $407.4 million in total loans, which resulted in goodwill of $14.6 million being recorded.

The acquired portfolio of loans is now housed in our SPF division. The SPF division is responsible for servicing the acquired loan portfolio and originating new loan production. In connection with this acquisition, we opened a new loan production office in Baltimore, Maryland.

See Note 2 "Business Combinations" in the Notes to Consolidated Financial Statements for additional information regarding the acquisition of LH-Finance.

Shore Premier Finance

On June 30, 2018, the Company, completed the acquisition of Shore Premier Finance ("SPF"), a division of Union Bank & Trust of Richmond, Virginia, the bank subsidiary of Union Bankshares Corporation. The Company paid a purchase price of approximately $377.4 million in cash, subject to certain post-closing adjustments, and 1,250,000 shares of HBI common stock. SPF provides direct consumer financing for United States Coast Guard ("USCG") registered high-end sail and power boats. Additionally, SPF provides inventory floor plan lines of credit to marine dealers, primarily those selling USCG documented vessels.

Including the purchase accounting adjustments, as of acquisition date, SPF had approximately $377.0 million in total assets, including $376.2 million in total loans, which resulted in goodwill of $30.5 million being recorded.

This portfolio of loans is now housed in a division of Centennial known as Shore Premier Finance. The SPF division of Centennial is responsible for servicing the acquired loan portfolio and originating new loan production. In connection with this acquisition, Centennial opened a new loan production office in Chesapeake, Virginia, to house the SPF division. Through the SPF division, Centennial is working to build out a lending platform focusing on commercial and consumer marine loans.

See Note 2 "Business Combinations" in the Notes to Consolidated Financial Statements for additional information regarding the acquisition of SPF.

Future Acquisitions

In our continuing evaluation of our growth plans, we believe properly priced bank acquisitions can complement our organic growth and *de novo* branching growth strategies. We anticipate that our principal acquisition focus will be to continue to expand our presence in Arkansas, Florida and Alabama and into other contiguous markets through pursuing both non-FDIC-assisted and FDIC-assisted bank acquisitions. However, as financial opportunities in other market areas arise, we may seek to expand into those areas.

We will continue evaluating all types of potential bank acquisitions to determine what is in the best interest of our Company. Our goal in making these decisions is to maximize the return to our investors.

Branches

As opportunities arise, we will continue to open new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas.

During 2020, we did not open any *de novo* branches but opened a loan production office in Baltimore, Maryland, under the management of the SPF division in connection with our acquisition of LH-Finance. During 2019, we opened branch locations in Orlando and Hialeah, Florida, and Russellville, Arkansas. We also opened a loan production office in Miami, Florida, during 2019 under the management of Centennial CFG.

As of December 31, 2020, we had 161 branch locations. There were 77 branches in Arkansas, 78 branches in Florida, five branches in Alabama and one branch in New York City.

Results of Operations for the Years Ended December 31, 2020, 2019 and 2018

Our net income decreased $75.1 million, or 25.9%, to $214.4 million for the year ended December 31, 2020, from $289.5 million for the same period in 2019. On a diluted earnings per share basis, our earnings were $1.30 per share for the year ended December 31, 2020 and $1.73 per share for the year ended December 31, 2019. As a result of COVID-19, the unemployment rate projections significantly increased from January 1, 2020 through December 31, 2020. Additionally, the ongoing uncertainties related to the COVID-19 pandemic have resulted in the Company increasing reserves on deferred loans and loans 30 days or more past maturity. These impacts of COVID-19 have resulted in the Company recording a $102.1 million provision for credit losses on loans, an $842,000 provision for credit losses on investment securities, and a $2.0 million write-down for the fair value adjustment on marketable securities. The Company also recorded $17.0 million in unfunded commitments expense which was due to an increase in the expected funding percentages for the Company’s unfunded commitments as well as an increase in the unemployment rate projections from January 1, 2020 to December 31, 2020, due to COVID-19. We incurred $10.0 million of expense as a result of our LH-Finance acquisition, which we completed on February 29, 2020, including $9.3 million for the provision for credit losses and $711,000 of acquisition expenses. The acquired loan portfolio is now housed in our SPF division. The Company also had $1.1 million of expense for outsourced special projects, $10.2 million of special dividend income from one of our equity investments and $981,000 of increased depreciation expense related to the second quarter write-off of the Company’s Marathon, Florida branch office, which the Company made the strategic decision to demolish and rebuild at its existing location. The summation of all these items resulted in net expense of $123.8 million, or $91.5 million after tax.

Our net income decreased $10.9 million, or 3.62%, to $289.5 million for the year ended December 31, 2019, from $300.4 million for the same period in 2018. Total interest expense increased $30.4 million, or 24.5%, non-interest expense increased $11.8 million, or 4.5% and non-interest income decreased $3.3 million or 3.2%. This was partially offset by a $32.6 million, or 4.8% increase in total interest income. The increase in interest income was primarily due to a $27.7 million increase in loan interest income. The main components of the decrease in non-interest income were a $2.5 million decrease in other service charges and fees, a $1.6 million decrease in gain (loss) on OREO, net, and a $3.3 million decrease in other income, which was partially offset by a $2.0 million increase in dividends from the Federal Home Loan Bank (“FHLB”), Federal Reserve Bank (“FRB”), First National Bankers’ Bank (“FNBB”) and other dividends and a $1.9 million increase in mortgage lending income. The primary driver of the increase in interest expense was a $34.5 million, or 43.4%, increase in interest expense on deposits. The increase in non-interest expense was driven by a $10.6 million increase in salaries and employee benefits. Income tax expense increased by $965,000 for the year ended December 31, 2019.

On a diluted earnings per share basis, our earnings were $1.73 per share for each of the years ended December 31, 2019 and 2018. While net income decreased $10.9 million, the Company was able achieve a flat earnings per share for 2019 compared to 2018 as a result of being active in a share repurchase program. During 2018 and 2019 the Company repurchased 5.3 million shares and 4.5 million shares, respectively.

Net Interest Income

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors affecting the level of net interest income include the volume of earning assets and interest-bearing liabilities, yields earned on loans and investments and rates paid on deposits and other borrowings, the level of non-performing loans and the amount of non-interest-bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate (26.135% for the year ended December 31, 2020, 25.819% for the year ended December 31, 2019 and 26.135% for year ended December 31, 2018).

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds target rate, which is the cost to banks of immediately available overnight funds, increased four times in 2018. First, the target rate was increased to 1.50% to 1.75% on March 21, 2018; second, the rate was increased on June 13, 2018 to 1.75% to 2.00%; third, the rate was increased on September 26, 2018 to 2.00% to 2.25%; and fourth, the rate was increased on December 19, 2018 to 2.25% to 2.50%. The Federal Reserve lowered the target rate three times during 2019. First, the target rate was lowered to 2.00% to 2.25% on July 31, 2019; second, the rate was lowered on September 18, 2019 to 1.75% to 2.00%; and third, the rate was lowered on October 30, 2019 to 1.50% to 1.75%. The Federal Reserve lowered the target rate two times in 2020. First, the target rate was lowered to 1.00% to 1.25% on March 3, 2020; second, the rate was lowered to 0.00% to 0.25% on March 15, 2020. The target rate is currently at 0.00% to 0.25% as of December 31, 2020, which has decreased from the target rate of 1.50% to 1.75% as of December 31, 2019.

Our net interest margin decreased from 4.29% for the year ended December 31, 2019 to 4.02% for the year ended December 31, 2020. The yield on interest earning assets was 4.65% and 5.45% for the year ended December 31, 2020 and 2019, respectively, as average interest earning assets increased from $13.26 billion to $14.66 billion. The increase in average earning assets is primarily the result of a $542.5 million increase in average loans receivable, a $666.6 million increase in average interest-bearing balances due from banks and a $187.9 million increase in average investment securities. Average PPP loan balances were $547.3 million for the year ended December 31, 2020. These loans bear interest at 1.00% plus the accretion of the origination fee. We recognized total interest income of $19.2 million on PPP loans for the year ended December 31, 2020. The PPP loans were dilutive to the net interest margin by 2 basis points for the year ended December 31, 2020. The COVID-19 pandemic and the resulting governmental response have created a significant amount of excess liquidity in the market. As a result, we had an increase of $666.6 million in average interest-bearing cash balances for the year ended December 31, 2020 compared to the year ended December 31, 2019. This excess liquidity was dilutive to the net interest margin by 19 basis points. For the year ended December 31, 2020 and 2019, we recognized $27.4 million and $35.9 million, respectively, in total net accretion for acquired loans and deposits. The reduction in accretion was dilutive to the net interest margin by 5 basis points. We recognized $2.1 million event interest income for the year ended December 31, 2020 compared to $3.3 million for the year ended December 31, 2019. This lowered the net interest margin by 1 basis point. The rate on interest bearing liabilities was 0.89% and 1.55% for the year ended December 31, 2020 and 2019, respectively, as average interest-bearing liabilities increased from $10.02 billion to $10.50 billion. The reduction in yield on loans due to the low interest rate on PPP loans, the impact of the excess liquidity, the reduction in accretion income, and the reduction in loan payoff events, reduced the net interest margin by 27 basis points for the year ended December 31, 2020.

Net interest income on a fully taxable equivalent basis increased $20.1 million, or 3.5%, to $588.6 million for the year ended December 31, 2020, from $568.5 million for the same period in 2019. This increase in net interest income was the result of a $61.4 million decrease in interest expense partially offset by a $41.3 million decrease in interest income. The $41.3 million decrease in interest income was primarily the result lower yields on our loans. The higher level of earning assets resulted in an increase in interest income of approximately $43.5 million. The $61.4 million decrease in interest expense was primarily the result of our interest-bearing liabilities repricing in a lower interest rate environment. The lower yield on our interest earning assets resulted in an approximately $84.8 million decrease in interest income. The repricing of our interest-bearing liabilities in a lower interest rate environment resulted in an approximately $62.2 million decrease in interest expense. The higher level of our interest-bearing liabilities resulted in an increase in interest expense of approximately $797,000.

Our net interest margin decreased from 4.42% for the year ended December 31, 2018 to 4.29% for the year ended December 31, 2019. The yield on interest earning assets was 5.45% and 5.39% for the years ended December 31, 2019 and 2018, respectively, as average interest earning assets increased from $12.82 billion to $13.26 billion. The increase in earning assets is primarily the result of our acquisition in June 2018 and an increase in taxable investment securities. For the year ended December 31, 2019 and 2018, we recognized $35.9 million and $41.5 million, respectively, in total net accretion for acquired loans and deposits. We recognized $3.3 million in loan payoff events for the year ended December 31, 2019 compared to $7.1 million for the year ended December 31, 2018. In addition, we experienced approximately $2.0 million in increased investment premium amortization. The rate on interest bearing liabilities was 1.55% and 1.27% for the years ended December 31, 2019 and 2018, respectively, as average interest-bearing liabilities increased from $9.76 billion to $10.02 billion. The reduction in accretion income, decrease in loan payoff events and the increase in investment premium amortization reduced the net interest margin by 8 basis points for the year ended December 31, 2019.

Net interest income on a fully taxable equivalent basis increased $1.9 million, or 0.3% to $568.5 million for the year ended December 31, 2019, from $566.5 million for the same period in 2018. This increase in net interest income was the result of a $32.4 million increase in interest income partially offset by a $30.4 million increase in interest expense. The $32.4 million increase in interest income was primarily the result of a higher level of earning assets accompanied by higher yields on our loans. The higher level of earning assets resulted in an increase in interest income of approximately $23.0 million. The higher yield on our interest earning assets resulted in an approximately $9.4 million increase in interest income. The repricing of our interest-bearing liabilities in a higher interest rate environment resulted in an approximately $29.7 million increase in interest expense. The higher level of our interest-bearing liabilities resulted in an increase in interest expense of approximately $695,000.

Tables 2 and 3 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2020, 2019 and 2018, as well as changes in fully taxable equivalent net interest margin for the years 2020 compared to 2019 and 2019 compared to 2018.

Table 2: Analysis of Net Interest Income

	Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Interest income	$ 675,962	$ 717,988	$ 685,368
Fully taxable equivalent adjustment	6,015	5,255	5,513
Interest income – fully taxable equivalent	681,977	723,243	690,881
Interest expense	93,407	154,771	124,355
Net interest income – fully taxable equivalent	$ 588,570	$ 568,472	$ 566,526
Yield on earning assets – fully taxable equivalent	4.65%	5.45%	5.39%
Cost of interest-bearing liabilities	0.89	1.55	1.27
Net interest spread – fully taxable equivalent	3.76	3.90	4.12
Net interest margin – fully taxable equivalent	4.02	4.29	4.42

Table 3: Changes in Fully Taxable Equivalent Net Interest Margin

	December 31,	
	2020 vs. 2019	2019 vs. 2018
	(In thousands)	
Increase (decrease) in interest income due to change in earning assets	$ 43,506	$ 22,993
Increase (decrease) in interest income due to change in earning asset yields	(84,772)	9,369
(Increase) decrease in interest expense due to change in interest-bearing liabilities	(797)	(695)
(Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities	62,161	(29,721)
Increase (decrease) in net interest income	$ 20,098	$ 1,946

Table 4 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the years ended December 31, 2020, 2019 and 2018. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 4: Average Balance Sheets and Net Interest Income Analysis

	Years Ended December 31,							
	2020			2019			2018	
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense
	(Dollars in thousands)							
ASSETS								
Earnings assets								
Interest-bearing balances due from banks	$ 921,189	$ 1,849	0.20%	$ 254,548	$ 5,188	2.04%	$ 265,071	$ 4,64
Federal funds sold	1,330	21	1.58	1,421	34	2.39	2,876	3
Investment securities – taxable	1,653,159	32,596	1.97	1,663,512	41,406	2.49	1,542,188	36,83
Investment securities – non-taxable	577,444	21,262	3.68	379,232	17,026	4.49	386,790	17,43
Loans receivable	11,504,123	626,249	5.44	10,961,599	659,589	6.02	10,618,796	631,93
Total interest-earning assets	14,657,245	681,977	4.65	13,260,312	723,243	5.45	12,815,721	690,88
Non-earning assets	1,480,049			1,768,188			1,751,492	
Total assets	$ 16,137,294			$ 15,028,500			$ 14,567,213	
LIABILITIES AND SHAREHOLDERS' EQUITY								
Liabilities								
Interest-bearing liabilities								
Savings and interest-bearing transaction accounts	$ 7,686,621	$ 36,084	0.47%	$ 6,674,493	$ 77,194	1.16%	$ 6,418,186	$ 58,19
Time deposits	1,756,138	27,026	1.54	1,972,040	36,910	1.87	1,645,986	21,39
Total interest-bearing deposits	9,442,759	63,110	0.67	8,646,533	114,104	1.32	8,064,172	79,58
Federal funds purchased	1,557	13	0.83	2,895	54	1.87	31	
Securities sold under agreement to repurchase	151,573	1,167	0.77	149,665	2,544	1.70	148,327	1,82
FHLB borrowed funds	534,608	9,506	1.78	848,969	17,209	2.03	1,180,897	22,35
Subordinated debentures	369,943	19,611	5.30	369,175	20,860	5.65	368,409	20,58
Total interest-bearing liabilities	10,500,440	93,407	0.89	10,017,237	154,771	1.55	9,761,836	124,35
Non-interest-bearing liabilities								
Non-interest-bearing deposits	2,998,560			2,489,254			2,464,024	
Other liabilities	135,094			111,156			60,298	
Total liabilities	13,634,094			12,617,647			12,286,158	
Stockholders' equity	2,503,200			2,410,853			2,281,055	
Total liabilities and stockholders' equity	$ 16,137,294			$ 15,028,500			$ 14,567,213	
Net interest spread			3.76%			3.90%		
Net interest income and margin		$ 588,570	4.02		$ 568,472	4.29		$ 566,52

Table 5 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the year ended December 31, 2020 compared to 2019 and 2019 compared to 2018 on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 5: Volume/Rate Analysis

	Years Ended December 31,					
	2020 over 2019			2019 over 2018		
	Volume	Yield / Rate	Total	Volume	Yield / Rate	Total
	(In thousands)					
Increase (decrease) in:						
Interest income:						
Interest-bearing balances due from banks	$ 4,475	$ (7,814)	$ (3,339)	$ (191)	$ 730	$ 539
Federal funds sold	(2)	(11)	(13)	(23)	24	1
Investment securities – taxable	(256)	(8,554)	(8,810)	2,977	1,596	4,573
Investment securities – non-taxable	7,708	(3,472)	4,236	(339)	(69)	(408)
Loans receivable	31,581	(64,921)	(33,340)	20,569	7,088	27,657
Total interest income	43,506	(84,772)	(41,266)	22,993	9,369	32,362
Interest expense:						
Interest-bearing transaction and savings deposits	10,292	(51,402)	(41,110)	2,405	16,590	18,995
Time deposits	(3,767)	(6,117)	(9,884)	4,816	10,704	15,520
Federal funds purchased	(19)	(22)	(41)	53	—	53
Securities sold under agreement to repurchase	32	(1,409)	(1,377)	16	706	722
FHLB borrowed funds	(5,784)	(1,919)	(7,703)	(6,638)	1,493	(5,145)
Subordinated debentures	43	(1,292)	(1,249)	43	228	271
Total interest expense	797	(62,161)	(61,364)	695	29,721	30,416
Increase (decrease) in net interest income	$ 42,709	$ (22,611)	$ 20,098	$ 22,298	$ (20,352)	$ 1,946

Provision for Credit Losses

The Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective January 1, 2020. The guidance replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credits, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. ASC 326 requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses as well as the credit quality and underwriting standards of a company’s portfolio. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities management does not intend to sell or believes that it is more likely than not, they will be required to sell.

Loans. Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in the national unemployment rate, commercial real estate price index, housing price index and national retail sales index.

Acquired loans. In accordance with ASC 326, the Company records both a discount and an allowance for credit losses on acquired loans. This is commonly referred to as “double accounting.”

The allowance for credit losses is measured based on call report segment as these types of loan exhibit similar risk characteristics. The identified loan segments are as follows:

- 1-4 family construction
- All other construction
- 1-4 family revolving home equity lines of credit (“HELOC”) & junior liens
- 1-4 family senior liens
- Multifamily
- Owner occupies commercial real estate
- Non-owner occupied commercial real estate
- Commercial & industrial, agricultural, non-depository financial institutions, purchase/carry securities, other
- Consumer auto
- Other consumer
- Other consumer - SPF

The allowance for credit losses for each segment is measured through the use of the discounted cash flow method. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan.

Investments – Available-for-sale: The Company evaluates all securities quarterly to determine if any securities in a loss position require a provision for credit losses in accordance with ASC 326, *Measurement of Credit Losses on Financial Instruments*. The Company first assesses whether it intends to sell or is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income. For securities that do not meet these criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, and changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Credit Loss Expense: During the year ended December 31, 2020, we recorded $112.3 million of total credit loss expense compared to $1.3 million for the year ended December 31, 2019. This expense is comprised of the following components – investment securities, CECL double accounting for LH-Finance and CECL COVID-19 loan provision. During the year ended December 31, 2020, we recorded $842,000 for credit losses on the investment portfolio as a result of economic uncertainties related to COVID-19, $9.3 million for CECL double accounting for LH-Finance and $102.1 million for the CECL COVID-19 loan provision. Our CECL provisioning model is significantly tied to projected unemployment rates. As a result of COVID-19, the unemployment rate projections significantly increased from January 1 to December 31, 2020. Additionally, the ongoing uncertainties related to the COVID-19 pandemic have resulted in the Company increasing reserves on deferred loans as well as loans 30 days or more past maturity. These impacts of COVID-19 have resulted in the Company recording the $102.1 million provision. Net charge-offs to average total loans increased to 0.11% for the year ended December 31, 2020 from 0.08% for the year ended December 31, 2019. In addition, non-performing loans to total loans increased from 0.50% as of December 31, 2019 to 0.66% as of December 31, 2020.

Non-Interest Income

Total non-interest income was $111.8 million in 2020, compared to $99.5 million in 2019 and $102.8 million in 2018. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, trust fees, mortgage lending, insurance commissions, increase in cash value of life insurance and dividends.

Table 6 measures the various components of our non-interest income for the years ended December 31, 2020, 2019, and 2018, respectively, as well as changes for the years 2020 compared to 2019 and 2019 compared to 2018.

Table 6: Non-Interest Income

	Years Ended December 31, 2020	2019	2018	2020 Change from 2019		2019 Change from 2018	
	(Dollars in thousands)						
Service charges on deposit accounts	$ 21,381	$ 25,930	$ 26,851	$ (4,549)	(17.5)%	$ (921)	(3.
Other service charges and fees	30,686	34,086	36,591	(3,400)	(10.0)	(2,505)	(6.
Trust fees	1,633	1,566	1,552	67	4.3	14	0.
Mortgage lending income	29,065	14,303	12,379	14,762	103.2	1,924	15.
Insurance commissions	1,848	2,278	2,110	(430)	(18.9)	168	8.
Increase in cash value of life insurance	2,200	2,752	2,856	(552)	(20.1)	(104)	(3.
Dividends from FHLB, FRB, First National Bankers' Bank & other	12,472	7,707	5,757	4,765	61.8	1,950	33.
Gain on sale of SBA loans	645	1,573	566	(928)	(59.0)	1,007	177.
Gain (loss) on sale of branches, equipment and other assets, net	326	(3)	(120)	329	10,966.7	117	97.
Gain (loss) on OREO, net	1,132	757	2,401	375	49.5	(1,644)	(68.
Gain (loss) on securities, net	—	(2)	—	2	100.0	(2)	(100.
Fair value adjustment for marketable securities	(1,978)	—	499	(1,978)	100.0	(499)	(100.
Other income	12,376	8,569	11,390	3,807	44.4	(2,821)	(24.
Total non-interest income	$ 111,786	$ 99,516	$ 102,832	$ 12,270	12.3%	$ (3,316)	(3.

Non-interest income increased $12.3 million, or 12.3%, to $111.8 million for the year ended December 31, 2020 from $99.5 million for the same period in 2019. The primary factor that resulted in this increase was the $14.8 million increase in mortgage lending income for the year ended December 31, 2020. Other factors were changes related to service charges on deposit accounts, other service charges and fees, decrease in cash value of life insurance, dividends from FHLB, FRB, FNBB & other, gain on sale of SBA loans, equipment and other assets, fair value adjustment for marketable securities and other income.

Additional details for the year ended December 31, 2020 on some of the more significant changes are as follows:

- The $4.5 million decrease in service charges on deposit accounts is primarily related to a decrease in overdraft fees resulting from changes in consumer spending habits leading consumers to hold higher deposit balances in response to the COVID-19 pandemic.
- The $3.4 million decrease in other service charges and fees is primarily due to the reduction in Centennial CFG property finance loan fees and wire service charges.
- The $14.8 million increase in mortgage lending income is primarily due to the increase in volume of secondary market loan sales driven by the current low interest rate environment.
- The $552,000 decrease in the cash value of life insurance is due to the Company surrendering $47.5 million of underperforming separate account bank owned life insurance ("BOLI") during 2019.
- The $4.8 million increase in dividends from FHLB, FRB, FNBB & other is primarily the result of $10.2 million in special dividends from an equity investment received during 2020, compared to $3.0 million received during 2019. This was partially offset by a decrease in dividend income from the FRB and FHLB.
- The $928,000 million decrease in gain on sale of SBA loans is primarily due a reduction in volume of sales of SBA loans in 2020.
- The $2.0 million loss in the fair value adjustment for marketable securities is related to the decline in the fair market value of a marketable security acquired by the Company in 2020.

- The $3.8 million increase in other income is primarily due to a $2.7 million increase in additional income for items previously charged off, a $452,000 increase in gain on life insurance and an $873,000 increase in investment brokerage fee income.

Non-interest income decreased $3.3 million, or 3.2%, to $99.5 million for the year ended December 31, 2019 from $102.8 million for the same period in 2018. The primary factor that resulted in this decrease was the impact of the Durbin Amendment which reduced interchange fees by approximately $6.0 million for the year ended December 31, 2019. Other factors were changes related to service charges on deposit accounts, other service charges and fees, mortgage lending income, dividends from FHLB, FRB, FNBB & other, gain on sale of SBA loans, gain (loss) on OREO and other income.

Additional details for the year ended December 31, 2019 on some of the more significant changes are as follows:

- The $921,000 decrease in service charges on deposit accounts is primarily related to a decrease in overdraft fees.

- The $2.5 million decrease in other service charges and fees is primarily due to the reduction in interchange fees as a result of the Company being subject to interchange fee restrictions from the Durbin Amendment. We estimate that interchange fees are approximately $6.0 million lower as a result of the Durbin Amendment. This was partially offset by increases in property finance loan fees, wire service charges and other non-interchange related fee income.

- The $1.9 million increase in mortgage lending income is primarily related to an increase in gains on sales of mortgage loans due to increased volume.

- The $2.0 million increase in dividends from FHLB, FRB, First National Bankers' Bank & other is primarily the result of $3.0 million in special dividends from an equity investment in 2019. This was partially offset by a decrease in dividend income from the FRB and FHLB.

- The $1.0 million increase in gain on sale of SBA loans is primarily due both increased volume and higher gains from the sales of SBA loans.

- The $1.6 million decrease in gain (loss) on OREO is primarily related to realizing fewer gains on sale from OREO properties during 2019 and $791,000 increase in revaluation expense for 2019 compared to 2018.

- The $3.3 million decrease in other income is primarily due to a $767,000 decrease in investment brokerage fee income, a $499,000 decrease in income from fair value adjustments for equity securities due to the Company selling its equity securities during the fourth quarter of 2018, a $489,000 decrease in additional income for items previously charged off and a $1.4 million decrease in miscellaneous income.

During 2019, the Company made a strategic decision to surrender $47.5 million of its underperforming separate account bank owned life insurance ("BOLI"). As a result of this decision, the income earned on the increase in the cash value of life insurance will be lower in future periods.

We exceeded $10 billion in assets during the first quarter of 2017 and became subject to the Durbin Amendment to the Dodd-Frank Act interchange fee restrictions beginning in the third quarter of 2018. The Durbin Amendment negatively impacts debit card and ATM fees beginning in the second half of 2018.

Non-Interest Expense

Non-interest expense consists of salaries and employee benefits, occupancy and equipment, data processing, and other expenses such as advertising, merger and acquisition expenses, amortization of intangibles, electronic banking expense, FDIC and state assessment, insurance, legal and accounting fees and other professional fees.

Table 7 below sets forth a summary of non-interest expense for the years ended December 31, 2020, 2019, and 2018, as well as changes for the years ended 2020 compared to 2019 and 2019 compared to 2018.

Table 7: Non-Interest Expense

	Years Ended December 31,			2020 Change from 2019		2019 Change from 2018	
	2020	2019	2018				
	(Dollars in thousands)						
Salaries and employee benefits	$ 163,950	$ 154,177	$ 143,545	$ 9,773	6.3%	$ 10,632	7.4%
Occupancy and equipment	38,412	35,452	33,960	2,960	8.3	1,492	4.4
Data processing expense	19,032	16,161	14,428	2,871	17.8	1,733	12.0
Other operating expenses:							
Advertising	3,999	4,687	4,472	(688)	(14.7)	215	4.8
Merger and acquisition expenses	711	—	6,013	711	100.0	(6,013)	(100.0)
Amortization of intangibles	5,844	6,324	6,455	(480)	(7.6)	(131)	(2.0)
Electronic banking expense	8,477	7,525	7,622	952	12.7	(97)	(1.3)
Directors’ fees	1,624	1,602	1,281	22	1.4	321	25.1
Due from bank service charges	975	1,081	1,003	(106)	(9.8)	78	7.8
FDIC and state assessment	6,494	4,468	8,558	2,026	45.3	(4,090)	(47.8)
Hurricane expense	—	897	470	(897)	(100.0)	427	90.9
Insurance	3,018	2,846	3,100	172	6.0	(254)	(8.2)
Legal and accounting	4,222	5,017	3,548	(795)	(15.8)	1,469	41.4
Other professional fees	8,150	10,213	6,453	(2,063)	(20.2)	3,760	58.3
Operating supplies	1,988	2,021	2,222	(33)	(1.6)	(201)	(9.0)
Postage	1,283	1,266	1,303	17	1.3	(37)	(2.8)
Telephone	1,302	1,210	1,405	92	7.6	(195)	(13.9)
Unfunded commitments	16,989	—	—	16,989	100.0	—	0.0
Other expense	17,904	20,840	18,165	(2,936)	(14.1)	2,675	14.7
Total non-interest expense	$ 304,374	$ 275,787	$ 264,003	$ 28,587	10.4%	$ 11,784	4.5%

Non-interest expense increased $28.6 million, or 10.4%, to $304.4 million for the year ended December 31, 2020, from $275.8 million for the same period in 2019. The primary factor that resulted in this increase was the unfunded commitment expense. Other factors were changes related to salaries and employee benefits expense, occupancy and equipment expenses, data processing expenses, merger and acquisition expenses, electronic banking expense, FDIC and state assessment, hurricane expense, legal and accounting, other professional fees and other expense.

Additional details for the year ended December 31, 2020 on some of the more significant changes are as follows:

- The $9.8 million increase in salaries and employee benefits expense is primarily due to increased salary expense related to the normal increased cost of doing business, additional employees hired as a result of the increased regulatory environment and the acquisition of LH-Finance on February 29, 2020.
- The $3.0 million increase in occupancy and equipment is primarily related to an increase in janitorial services and supplies expense resulting from the ongoing COVID-19 pandemic and the increased depreciation expense due to the write-off of the Company’s Marathon, Florida branch office during the second quarter of 2020. The Company made the strategic decision to demolish and rebuild the branch at its existing location.
- The $2.9 million increase in data processing expense is primarily related to an increase in software, licensing, software maintenance and internet banking/cash management expenses.
- The $711,000 in merger and acquisition expense is related to the acquisition of LH-Finance during the first quarter of 2020.
- The $2.0 million increase in FDIC and state assessment is primarily related to a $2.3 million FDIC small bank assessment credit recorded in the third quarter of 2019.
- The $897,000 in hurricane expense incurred during the first quarter of 2019 was related to damages from Hurricane Michael which made landfall in Mexico Beach, Florida on October 10, 2018.
- The $795,000 decrease in legal and accounting fees is primarily due to a reduction in legal and audit fees for the Bank.

- The $2.1 million decrease in other professional fees is primarily related to a reduction in consulting fees, outsourced special projects and professional fees for the Bank.
- The $17.0 million increase in unfunded commitments expense is due to an increase in the expected funding percentages for the Company's unfunded commitments as well as an increase in the unemployment rate projections from January 1, 2020 to December 31, 2020, due to COVID-19, as the Company's provisioning model is significantly tied to projected unemployment rates.
- The $2.9 million decrease in other expenses is primarily due to the decreases in general travel expenses, OREO expenses and other miscellaneous expenses.

Non-interest expense increased $11.8 million, or 4.5%, to $275.8 million for the year ended December 31, 2019, from $264.0 million for the same period in 2018. The primary factor that resulted in this increase was the increase in salaries and employee benefits expense. Other factors were changes related to merger and acquisition expenses, FDIC and state assessment, other professional fees and other expense.

Additional details for the year ended December 31, 2019 on some of the more significant changes are as follows:

- The $10.6 million increase in salaries and employee benefits is primarily related to the normal increased cost of doing business and additional employees hired as a result of the increased regulatory environment, $1.7 million of additional expense related to performance based restricted stock and stock options granted during the third quarter of 2018 under the "HOMB $2.00" incentive program and the completion of the acquisition of SPF during the second quarter of 2018, which accounted for $445,000 of the increase.
- The $6.0 million decrease in merger and acquisition expense is related to the acquisition of Shore Premier Finance which was completed in 2018.
- The $4.1 million decrease in FDIC and state assessment is primarily related to a $2.3 million FDIC small bank assessment credit recorded in the third quarter of 2019, a lower assessment rate for 2019 and no surcharge expense being assessed by the FDIC during 2019. Small banks (total consolidated assets of less than $10 billion) were awarded FDIC assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15% to 1.35%, to be applied when the reserve ratio is at least 1.38%. The assessment regulations provide that after the reserve ratio reaches 1.38% the FDIC will automatically apply small bank credits to reduce the banks' regular deposit insurance assessments. Centennial Bank was classified as a small bank until January 1, 2018. During the third quarter, the Company was notified that the DIF reserve ratio as of June 30, 2019 was 1.40%. As a result, the Company recorded its FDIC small bank assessment credit in the amount of $2.3 million during the third quarter of 2019.
- The $3.8 million increase in other professional fees is primarily related to $1.5 million of expense incurred in relation to outsourced special projects as well as other additional expenses incurred in relation to the increased regulatory environment as a result of the Company exceeding $10 billion in assets.
- The $2.7 million increase in other expense is primarily related to the normal increased cost of doing business.

Income Taxes

During 2020, the Company began filing income tax returns in several new states. To account for the slight increase in state income tax expense due to respective state income tax rates, the Company raised its marginal tax rate from 25.819% to 26.135% for 2020.

During 2019, the State of Florida reduced its corporate income tax rate from 5.50% to 4.458% for the tax years January 1, 2019 through December 31, 2021. As a result of this reduction, our income taxes were reduced by $1.0 million. This rate decline lowered the Company's marginal tax rate from 26.135% to 25.819% for 2019.

Additionally, during 2019, the Company made a strategic decision to surrender $47.5 million of its underperforming BOLI. When a BOLI contract is surrendered the gains within the policy become taxable as well as a 10% IRS penalty on the gain. As a result of this BOLI decision, the Company recorded a $3.7 million tax expense related to this transaction. Excluding the BOLI tax expense, income tax expense would have been $92.4 million for a decrease of $2.7 million, or 2.8% for the year ended December 31, 2019 compared to the year ended December 31, 2018. The effective tax rate excluding the BOLI tax expense was 23.97% for the year ended December 31, 2019.

Income tax expense decreased $32.8 million, or 34.2%, to $63.3 million for the year ended December 31, 2020, from $96.1 million for 2019. Income tax expense increased $1.0 million, or 1.0%, to $96.1 million for the year ended December 31, 2019, from $95.1 million for 2018. The effective tax rates for the years ended December 31, 2020, 2019 and 2018 were 22.78%, 24.92% and 24.05%, respectively. The Company's marginal tax rate was 26.135%, 25.819% and 26.135% for years ended December 31, 2020, 2019 and 2018, respectively.

Financial Condition as of and for the Years Ended December 31, 2020 and 2019

Our total assets as of December 31, 2020 increased $1.37 billion to $16.40 billion from the $15.03 billion reported as of December 31, 2019. Cash and cash equivalents increased $773.2 million, or 157.6%. The COVID-19 crisis and the accompanying governmental response has created a tremendous amount of excess liquidity in the market. Our loan portfolio balance increased $351.0 million to $11.22 billion as of December 31, 2020, from $10.87 billion as of December 31, 2019. The increase in the loan portfolio is due to the $691.7 million of PPP loans as well as the acquisition of $406.2 million of loans from LH-Finance during the first quarter of 2020, which was offset by $747.0 million in organic loan decline for the year ended December 31, 2020. Total deposits increased $1.45 billion to $12.73 billion as of December 31, 2020 compared to $11.28 billion as of December 31, 2019, which was due to customers holding higher deposit balances in response to the COVID-19 pandemic as well as the resulting governmental response to the pandemic. Stockholders' equity increased $94.2 million to $2.61 billion as of December 31, 2020, compared to $2.51 billion as of December 31, 2019. The increase in stockholders' equity is primarily associated with the $214.4 million in net income and the $27.9 million increase in accumulated other comprehensive income which were partially offset by the $44.0 million impact of the adoption of ASC 326, $87.7 million of shareholder dividends paid and the repurchase of $25.7 million of our common stock during 2020. The improvement in stockholders' equity was 3.8% for the year ended December 31, 2020 compared to December 31, 2019.

Our total assets as of December 31, 2019 decreased $270.4 million to $15.03 billion from the $15.30 billion reported as of December 31, 2018. Cash and cash equivalents decreased $167.3 million, and our loan portfolio decreased $202.2 million to $10.87 billion as of December 31, 2019, from $11.07 billion as of December 31, 2018. Stockholders' equity increased $161.6 million to $2.51 billion as of December 31, 2019, compared to $2.35 billion as of December 31, 2018. The increase in stockholders' equity is primarily associated with the $204.4 million increase in retained earnings and the $30.0 million increase in accumulated other comprehensive income which were partially offset by the repurchase of $84.9 million of our common stock during 2019. The improvement in stockholders' equity for 2019 was 6.9%.

Loan Portfolio

Our loan portfolio averaged $11.50 billion and $10.96 billion during the years ended December 31, 2020 and 2019, respectively. Loans receivable were $11.22 billion as of December 31, 2020 compared to $10.87 billion as of December 31, 2019, an increase of $351.0 million, or 3.2%.

The CARES Act was passed by Congress and signed into law on March 27, 2020. The CARES Act includes an allocation for loans to be issued by financial institutions through the Small Business Administration ("SBA"). This program is known as the Paycheck Protection Program. PPP loans are forgivable, in whole or in part, so long as employee and compensation levels of the borrower are maintained, and the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00% and a term of two years, if not forgiven, in whole or in part. Payments are deferred for the first six months of the loan. The loans are 100% guaranteed by the SBA. The SBA pays the originating bank a processing fee ranging from 1.00% to 5.00%, based on the size of the loan. The Paycheck Protection Program and Health Care Enhancement Act ("PPP/HCEA Act") was passed by Congress on April 23, 2020 and signed into law on April 24, 2020. The PPP/HCEA Act authorizes additional funds under the CARES Act for PPP loans to be issued by financial institutions through the SBA. As of December 31, 2020, the Company had $691.7 million of PPP loans. This balance consists of $632.5 million in commercial & industrial loans and $59.2 million in other loans.

During 2020, the Company experienced an increase of approximately $351.0 million in loans. The increase in the loan portfolio is primarily due to the $691.7 million of PPP loans held as of December 31, 2020 as well as the acquisition of $406.2 million of loans from LH-Finance during the first quarter of 2020, which was offset by $747.0 million in organic loan decline for the year ended December 31, 2020. Excluding the effects of PPP loan originations, Centennial CFG experienced $59.9 million of organic loan decline during the year, while the remaining footprint, excluding the acquisition of LH-Finance, experienced $687.1 million of organic loan decline during 2020. The $848.7 million in PPP loans originated in 2020 have decreased by $157.0 million to $691.7 million as of December 31, 2020.

During 2019, the Company experienced a decline of approximately $202.2 million in loans compared to 2018. Centennial CFG produced $49.6 million of net organic loan growth during 2019 while the legacy footprint experienced $251.7 million of organic loan decline. Centennial CFG had total loans of $1.60 billion at December 31, 2019.

The most significant components of the loan portfolio were commercial real estate, residential real estate, consumer and commercial and industrial loans. These loans are generally secured by residential or commercial real estate or business or personal property. Although these loans are primarily originated within our franchises in Arkansas, Florida, South Alabama and Centennial CFG, the property securing these loans may not physically be located within our market areas of Arkansas, Florida, Alabama and New York. Loans receivable were approximately $3.72 billion, $4.82 billion, $245.0 million, $893.8 million and $1.54 billion as of December 31, 2020 in Arkansas, Florida, Alabama, SPF and Centennial CFG, respectively.

As of December 31, 2020, we had $426.5 million of construction/land development loans which were collateralized by land. This consisted of $96.5 million for raw land and $330.0 million for land with commercial and/or residential lots.

Table 8 presents our loans receivable balances by category as of December 31, 2020, 2019, 2018, 2017, and 2016.

Table 8: Loans Receivable

	As of December 31,				
	2020	2019	2018	2017	2016
	(In thousands)				
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	$ 4,429,060	$ 4,412,769	4,806,684	$ 4,600,117	$ 3,153,121
Construction/land development	1,562,298	1,776,689	1,546,035	1,700,491	1,135,843
Agricultural	114,431	88,400	76,433	82,229	77,736
Residential real estate loans:					
Residential 1-4 family	1,536,257	1,819,221	1,975,586	1,970,311	1,356,136
Multifamily residential	536,538	488,278	560,475	441,303	340,926
Total real estate	8,178,584	8,585,357	8,965,213	8,794,451	6,063,762
Consumer	864,690	511,909	443,105	46,148	41,745
Commercial and industrial	1,896,442	1,528,003	1,476,331	1,297,397	1,123,213
Agricultural	66,869	63,644	48,562	49,815	74,673
Other	214,136	180,797	138,668	143,377	84,306
Total loans receivable	$ 11,220,721	$ 10,869,710	$ 11,071,879	$ 10,331,188	$ 7,387,699

Commercial Real Estate Loans. We originate non-farm and non-residential loans (primarily secured by commercial real estate), construction/land development loans, and agricultural loans, which are generally secured by real estate located in our market areas. Our commercial mortgage loans are generally collateralized by first liens on real estate and amortized (where defined) over a 15 to 30-year period with balloon payments due at the end of one to five years. These loans are generally underwritten by assessing cash flow (debt service coverage), primary and secondary source of repayment, the financial strength of any guarantor, the strength of the tenant (if any), the borrower's liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. Generally, we will loan up to 85% of the value of improved property, 65% of the value of raw land and 75% of the value of land to be acquired and developed. A first lien on the property and assignment of lease is required if the collateral is rental property, with second lien positions considered on a case-by-case basis.

As of December 31, 2020, commercial real estate loans totaled $6.11 billion, or 54.4% of loans receivable, as compared to $6.28 billion, or 57.8% of loans receivable, as of December 31, 2019. Commercial real estate loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were $2.18 billion, $2.72 billion, $117.3 million, zero and $1.09 billion at December 31, 2020, respectively.

Residential Real Estate Loans. We originate one to four family, residential mortgage loans generally secured by property located in our primary market areas. Approximately 35.0% and 53.5% of our residential mortgage loans consist of owner occupied 1-4 family properties and non-owner occupied 1-4 family properties (rental), respectively, as of December 31, 2020, with the remaining 11.5% relating to condos and mobile homes. Residential real estate loans generally have a loan-to-value ratio of up to 90%. These loans are underwritten by giving consideration to many factors including the borrower's ability to pay, stability of employment or source of income, debt-to-income ratio, credit history and loan-to-value ratio.

As of December 31, 2020, residential real estate loans totaled $2.07 billion, or 18.5%, of loans receivable, compared to $2.31 billion, or 21.2% of loans receivable, as of December 31, 2019. Residential real estate loans originated in our franchises in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were $761.6 million, $1.15 billion, $63.1 million, zero and $95.7 million at December 31, 2020, respectively.

Consumer Loans. Our consumer loans are composed of secured and unsecured loans originated by our bank, the primary portion of which consists of loans to finance USCG registered high-end sail and power boats as a result of our acquisition of SPF on June 30, 2018 as well as our acquisition of LH-Finance on February 29, 2020. The performance of consumer loans will be affected by the local and regional economies as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

As of December 31, 2020, consumer loans totaled $864.7 million, or 7.7% of loans receivable, compared to $511.9 million, or 4.7% of loans receivable, as of December 31, 2019. Consumer loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were $40.2 million, $9.5 million, $975,000, $814.1 million ($331.4 million of which was acquired from LH-Finance during the first quarter of 2020) and zero at December 31, 2020, respectively.

Commercial and Industrial Loans. Commercial and industrial loans are made for a variety of business purposes, including working capital, inventory, equipment and capital expansion. The terms for commercial loans are generally one to seven years. Commercial loan applications must be supported by current financial information on the borrower and, where appropriate, by adequate collateral. Commercial loans are generally underwritten by addressing cash flow (debt service coverage), primary and secondary sources of repayment, the financial strength of any guarantor, the borrower's liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. The loan to value ratio depends on the type of collateral. Generally speaking, accounts receivable are financed at between 50% and 80% of accounts receivable less than 60 days past due. Inventory financing will range between 50% and 80% (with no work in process) depending on the borrower and nature of inventory. We require a first lien position for those loans.

As of December 31, 2020, commercial and industrial loans totaled $1.90 billion, or 16.9% of loans receivable, which compared to $1.53 billion, or 14.1% of loans receivable, as of December 31, 2019. Commercial and industrial loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were $613.4 million, $829.2 million, $57.5 million, $79.7 million ($74.8 million of which was acquired from LH-Finance during the first quarter of 2020) and $316.7 million at December 31, 2020, respectively.

Agricultural Loans. Agricultural loans include loans for financing agricultural production, including loans to businesses or individuals engaged in the production of timber, poultry, livestock or crops and are not categorized as part of real estate loans. Our agricultural loans are generally secured by farm machinery, livestock, crops, vehicles or other agricultural-related collateral. A portion of our portfolio of agricultural loans is comprised of loans to individuals which would normally be characterized as consumer loans except for the fact that the individual borrowers are primarily engaged in the production of timber, poultry, livestock or crops.

As of December 31, 2020, agricultural loans totaled $66.9 million, or 0.6% of loans receivable, compared to the $63.6 million, or 0.6% of loans receivable as of December 31, 2019. Agricultural loans originated in our Arkansas, Florida, Alabama, SPF and Centennial CFG markets were $61.4 million, $5.5 million, zero, zero and zero at December 31, 2020, respectively.

Table 9 presents the distribution of the maturity of our total loans as of December 31, 2020. The table also presents the portion of our loans that have fixed interest rates and interest rates that fluctuate over the life of the loans based on changes in the interest rate environment.

The loans acquired during our acquisitions accrete interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the weighted-average life of the loans).

Table 9: Maturity of Loans

	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 752,721	$ 2,505,510	$ 1,170,829	$ 4,429,060
Construction/land development	828,776	537,875	195,647	1,562,298
Agricultural	28,647	74,013	11,771	114,431
Residential real estate loans				
Residential 1-4 family	176,292	426,202	933,763	1,536,257
Multifamily residential	151,066	266,967	118,505	536,538
Total real estate	1,937,502	3,810,567	2,430,515	8,178,584
Consumer	28,697	20,729	815,264	864,690
Commercial and industrial	389,138	1,297,883	209,421	1,896,442
Agricultural	42,572	16,662	7,635	66,869
Other	9,503	156,078	48,555	214,136
Total loans receivable	$ 2,407,412	$ 5,301,919	$ 3,511,390	$ 11,220,721
Fixed interest rates	$ 1,310,074	$ 3,597,858	$ 1,470,694	$ 6,378,626
Floating interest rates	1,097,338	1,704,061	2,039,937	4,841,336
Purchased credit deteriorated loans	—	—	759	759
Total loans receivable	$ 2,407,412	$ 5,301,919	$ 3,511,390	$ 11,220,721

Non-Performing Assets

We classify our problem loans into three categories: past due loans, special mention loans and classified loans (accruing and non-accruing).

When management determines that a loan is no longer performing, and that collection of interest appears doubtful, the loan is placed on non-accrual status. Loans that are 90 days past due are placed on non-accrual status unless they are adequately secured and there is reasonable assurance of full collection of both principal and interest. Our management closely monitors all loans that are contractually 90 days past due, treated as "special mention" or otherwise classified or on non-accrual status.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration that were previously classified as PCI and accounted for under ASC 310-30. In 2019, the Company reevaluated its loan pools of purchased loans with deteriorated credit quality. These loans pools related specifically to acquired loans from the Heritage, Liberty, Landmark, Bay Cities, Bank of Commerce, Premier Bank, Stonegate and Shore Premier Finance acquisitions. At acquisition, a portion of these loans were recorded as purchased credit impaired loans on a pool by pool basis. Through the reevaluation of these loan pools, management determined that estimated losses for purchase credit impaired loans should be processed against the credit mark of the applicable pools. The remaining non-accretable mark was then moved to accretable mark to be recognized over the remaining weighted average life of the loan pools. The projected losses for these loans were less than the total credit mark. As such, the remaining $107.6 million of loans in these pools along with the $29.3 million in accretable yield were deemed to be immaterial and were reclassified out of the purchased credit impaired loans category. As of December 31, 2019, the Company no longer held any purchased loans with deteriorated credit quality. Therefore, the Company did not have any PCI loans upon adoption of ASC 326 as of January 1, 2020.

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through provision expense.

Prior to 2019, we had purchased loans with deteriorated credit quality in our financial statements as a result of our historical acquisitions. The credit metrics most heavily impacted by our acquisitions of acquired loans with deteriorated credit quality were the following credit quality indicators listed in Table 10 below:

- Allowance for credit losses to non-performing loans;
- Non-performing loans to total loans; and
- Non-performing assets to total assets.

Table 10 sets forth information with respect to our non-performing assets as of December 31, 2020, 2019, 2018, 2017 and 2016. As of these dates, all non-performing restructured loans are included in non-accrual loans.

Table 10: Non-performing Assets

	As of December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Non-accrual loans	$ 64,528	$ 47,607	$ 47,083	$ 34,032	$ 47,182
Loans past due 90 days or more (principal or interest payments)	9,610	7,238	17,159	10,665	15,942
Total non-performing loans	74,138	54,845	64,242	44,697	63,124
Other non-performing assets					
Foreclosed assets held for sale, net	4,420	9,143	13,236	18,867	15,951
Other non-performing assets	—	447	497	3	3
Total other non-performing assets	4,420	9,590	13,733	18,870	15,954
Total non-performing assets	$ 78,558	$ 64,435	$ 77,975	$ 63,567	$ 79,078
Allowance for credit losses to non-performing loans	331.10%	186.20%	169.35%	246.70%	126.74%
Non-performing loans to total loans	0.66	0.50	0.58	0.43	0.85
Non-performing assets to total assets	0.48	0.43	0.51	0.44	0.81

Our non-performing loans are comprised of non-accrual loans and accruing loans that are contractually past due 90 days. Our bank subsidiary recognizes income principally on the accrual basis of accounting. When loans are classified as non-accrual, the accrued interest is charged off and no further interest is accrued, unless the credit characteristics of the loan improve. If a loan is determined by management to be uncollectible, the portion of the loan determined to be uncollectible is then charged to the allowance for credit losses.

Total non-performing loans were $74.1 million as of December 31, 2020, compared to $54.8 million as of December 31, 2019, for an increase of $19.3 million. The $19.3 million increase in non-performing loans is the result of a $6.2 million increase in non-performing loans in our Arkansas market, a $8.4 million increase in non-performing loans in our Florida market, a $101,000 increase in non-performing loans in our Alabama market, a $1.8 million increase in non-performing loans attributable to our SPF market and a $2.8 million increase in non-performing loans in our Centennial CFG market. Non-performing loans December 31, 2020 are $24.1 million, $43.1 million, $530,000, $3.6 million and $2.8 million in the Arkansas, Florida, Alabama, SPF and Centennial CFG markets, respectively.

The $2.8 million balance of non-accrual loans for our Centennial CFG market consists of one loan that is assessed for Credit risk by the Federal Reserve under the Shared National Credit Program. The decision to place this loan on non-accrual status was made by the Federal Reserve and not the Company. The loan that makes up the total balance is still current on both principal and interest. However, all interest payments are currently being applied to the principal balance. Because the Federal Reserve required us to place this loan on non-accrual status, we have reversed any interest that had accrued subsequent to the non-accrual date designated by the Federal Reserve.

During 2020, the COVID-19 pandemic has had a significant impact on global markets driven by supply chain and production disruptions, workforce restrictions, travel restrictions, retail closures, and reduced consumer spending and sentiment, amongst other factors. The global and economic impacts of the coronavirus continue to evolve, and the Company is continuing to closely monitor the situation. While the Company believes our allowance for credit losses is adequate at December 31, 2020, as additional facts become known about relevant internal and external factors that affect loan collectability and our assumptions, it may result in us making additions to the provision for credit losses during 2021. Our CECL provisioning model is significantly tied to projected unemployment rates. As a result of COVID-19, the unemployment rate projections significantly increased from January 1 to the end of December 2020. Additionally, the ongoing uncertainties related to the COVID-19 pandemic have resulted in the Company increasing reserves on deferred loans as well as loans 30 days or more past maturity. These impacts of COVID-19 have resulted in a $102.1 million provision for credit losses on loans for the year ended December 31, 2020.

Troubled debt restructurings ("TDRs") generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near term. As a result, we will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan. In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable and depressed real estate market. When we have modified the terms of a loan, we usually either reduce the monthly payment and/or interest rate for generally about three to twelve months. For our TDRs that accrue interest at the time the loan is restructured, it would be a rare exception to have charged-off any portion of the loan. As of December 31, 2020, we had $10.7 million of restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 10. Our Florida market contains $8.6 million, our Arkansas market contains $2.1 million and our Alabama market contains zero of these restructured loans.

A loan modification that might not otherwise be considered may be granted resulting in classification as a TDR. These loans can involve loans remaining on non-accrual, moving to non-accrual, or continuing on an accrual status, depending on the individual facts and circumstances of the borrower. Generally, a non-accrual loan that is restructured remains on non-accrual for a period of six months to demonstrate that the borrower can meet the restructured terms. However, performance prior to the restructuring, or significant events that coincide with the restructuring, are considered in assessing whether the borrower can pay under the new terms and may result in the loan being returned to an accrual status after a shorter performance period. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan will remain in a non-accrual status.

Section 4013 of the CARES Act enacted in March 2020 provides financial institutions optional temporary relief from the TDR classification requirements for certain COVID-19 related loan modifications. Specifically, financial institutions may elect to suspend TDR classification for certain loan modifications related to COVID-19 made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after termination of the President's national emergency declaration for COVID-19. Further, financial institutions do not need to determine impairment associated with certain loan concessions that would otherwise have been required for TDRs (e.g., interest rate concessions, payment deferrals, or loan extensions). On April 7, 2020, the Federal Reserve Board and the other federal bank regulatory agencies issued an interagency statement clarifying the relationship between the Section 4013 of the CARES Act and previous guidance issued by the agencies on March 22, 2020. This interagency statement encourages financial institutions to work prudently with borrowers who are or may be unable to meet their payment obligations because of COVID-19 and states that the agencies view loan modification programs as positive actions that can mitigate adverse effects on borrowers due to COVID-19. The Company relied on Section 4013 of the CARES Act in accounting for loan modifications in the 4th quarter 2020. The Company granted loan modification to 56 loans for a total of $330.7 million. Of the 56 loans currently on deferment, 51 of the loans totaling $271.1 million chose interest only deferment and have returned to paying interest monthly, with the majority of these loans having modifications for 18 to 24 month interest only payments with a return to full principal and interest payments at the end of the modification term.

The majority of the Bank's loan modifications relates to commercial lending and involves reducing the interest rate, changing from a principal and interest payment to interest-only, a lengthening of the amortization period, or a combination of some or all of the three. In addition, it is common for the Bank to seek additional collateral or guarantor support when modifying a loan. At December 31, 2020, the amount of TDRs was $12.3 million, a decrease of 24.2% from $16.3 million at December 31, 2019. As of December 31, 2020 and 2019, 87.1% and 74.6%, respectively, of all restructured loans were performing to the terms of the restructure.

Total foreclosed assets held for sale were $4.4 million as of December 31, 2020, compared to $9.1 million as of December 31, 2019 for a decrease of $4.7 million. The foreclosed assets held for sale as of December 31, 2020 are comprised of $1.5 million of assets located in Arkansas, $2.9 million of assets located in Florida, $34,000 located in Alabama and zero from SPF and Centennial CFG.

As of December 31, 2020, we had one foreclosed property with a carrying value greater than $1.0 million. This property was a development property in Florida acquired from BOC with a carrying value of $2.1 million at December 31, 2020. The Company does not currently anticipate any additional losses on this property. As of December 31, 2020, no other foreclosed assets held for sale have a carrying value greater than $1.0 million.

Table 11 shows the summary of foreclosed assets held for sale as of December 31, 2020, 2019, 2018, 2017 and 2016.

Table 11: Total Foreclosed Assets Held for Sale

	As of December 31,				
	2020	2019	2018	2017	2016
	(In thousands)				
Commercial real estate loans					
Non-farm/non-residential	$ 438	$ 3,528	$ 5,555	$ 9,766	$ 9,423
Construction/land development	3,189	3,218	3,534	5,920	4,009
Agricultural	—	—	—	—	—
Residential real estate loans					
Residential 1-4 family	793	2,397	4,142	2,654	2,076
Multifamily residential	—	—	5	527	443
Total foreclosed assets held for sale	$ 4,420	$ 9,143	$ 13,236	$ 18,867	$ 15,951

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and non-accrual loans), criticized and/or classified loans with a specific allocation, loans categorized as TDRs and certain other loans identified by management that are still performing (loans included in multiple categories are only included once). As of December 31, 2020, average impaired loans were $96.6 million compared to $82.1 million as of December 31, 2019. As of December 31, 2020 impaired loans were $112.7 million compared to $78.9 million as of December 31, 2019, for an increase of $33.8 million. This increase is primarily associated with the $17.8 million increase in impaired loans in our Arkansas market, the $11.7 million increase in impaired loans in our Florida market, the $1.8 million increase in impaired loans for our SPF market, and the $2.8 million increase in impaired loans for our Centennial CFG market, which was partially offset by the $280,000 decrease in impaired loans for our Alabama market since December 31, 2019. As of December 31, 2020, our Arkansas, Florida, Alabama, SPF and Centennial CFG markets accounted for approximately $50.1 million, $55.7 million, $530,000, $3.6 million and $2.8 million of the impaired loans, respectively.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration that were previously classified as PCI and accounted for under ASC 310-30. In 2019, the Company reevaluated its loan pools of purchased loans with deteriorated credit quality. These loans pools related specifically to acquired loans from the Heritage, Liberty, Landmark, Bay Cities, Bank of Commerce, Premier Bank, Stonegate and Shore Premier Finance acquisitions. At acquisition, a portion of these loans were recorded as purchased credit impaired loans on a pool by pool basis. Through the reevaluation of these loan pools, management determined that estimated losses for purchase credit impaired loans should be processed against the credit mark of the applicable pools. The remaining non-accretable mark was then moved to accretable mark to be recognized over the remaining weighted average life of the loan pools. The projected losses for these loans were less than the total credit mark. As such, the remaining $107.6 million of loans in these pools along with the $29.3 million in accretable yield were deemed to be immaterial and were reclassified out of the purchased credit impaired loans category. As of December 31, 2019, the Company no longer held any purchased loans with deteriorated credit quality. Therefore, the Company did not have any PCI loans upon adoption of ASC 326 as of January 1, 2020.

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan’s purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through provision expense. The Company held approximately $760,000 in PCD loans as of December 31, 2020.

Past Due and Non-Accrual Loans

Table 12 shows the summary non-accrual loans as of December 31, 2020, 2019, 2018, 2017 and 2016:

Table 12: Total Non-Accrual Loans

	As of December 31,				
	2020	**2019**	**2018**	**2017**	**2016**
	(In thousands)				
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	$ 20,947	$ 10,966	$ 15,031	$ 9,600	$ 17,988
Construction/land development	1,381	1,359	5,280	5,011	3,956
Agricultural	879	1,094	20	19	435
Residential real estate loans					
Residential 1-4 family	19,334	20,314	17,384	14,437	20,311
Multifamily residential	173	331	972	153	262
Total real estate	42,714	34,064	38,687	29,220	42,952
Consumer	3,506	1,632	2,912	145	140
Commercial and industrial	17,251	10,692	5,451	4,584	3,155
Agricultural	1,057	1,218	32	54	—
Other	—	1	1	29	935
Total non-accrual loans	$ 64,528	$ 47,607	$ 47,083	$ 34,032	$ 47,182

If the non-accrual loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately $3.7 million for the year ended December 31, 2020, $2.4 million in 2019, and $2.9 million in 2018 would have been recorded. Interest income recognized on the non-accrual loans for the years ended December 31, 2020, 2019 and 2018 was considered immaterial.

Table 13 shows the summary of accruing past due loans 90 days or more as of December 31, 2020, 2019, 2018, 2017 and 2016:

Table 13: Total Loans Accruing Past Due 90 Days or More

	As of December 31,				
	2020	**2019**	**2018**	**2017**	**2016**
	(In thousands)				
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	$ 6,088	$ 3,194	$ 9,679	$ 3,119	$ 9,530
Construction/land development	1,296	1,821	3,481	3,247	3,086
Agricultural	—	—	—	—	—
Residential real estate loans					
Residential 1-4 family	1,821	1,614	1,753	2,175	2,996
Multifamily residential	—	—	—	100	—
Total real estate	9,205	$ 6,629	14,913	8,641	15,612
Consumer	174	317	720	26	21
Commercial and industrial	231	292	1,526	1,944	309
Other	—	—	—	54	—
Total loans accruing past due 90 days or more	$ 9,610	$ 7,238	$ 17,159	$ 10,665	$ 15,942

Our total loans accruing past due 90 days or more and non-accrual loans to total loans was 0.66% and 0.50% as of December 31, 2020 and 2019, respectively.

Allowance for Credit Losses

The Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective January 1, 2020. The guidance replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance, including loan commitments, standby letters of credits, financial guarantees, and other similar instruments. The Company adopted ASC 326 using the modified retrospective method for loans and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a one-time cumulative-effect adjustment to the allowance for credit losses of $44.0 million, which was recognized through a $32.5 million adjustment to retained earnings, net of tax. This adjustment brought the beginning balance of the allowance for credit losses to $146.1 million as of January 1, 2020. In addition, the Company recorded a $15.5 million reserve on unfunded commitments, as of January 1, 2020, which was recognized through an $11.5 million adjustment to retained earnings, net of tax.

Overview. The allowance for credit losses on loans receivable is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The Company uses the discounted cash flow ("DCF") method to estimate expected losses for all of Company's loan pools. These pools are as follows: construction & land development; other commercial real estate; residential real estate; commercial & industrial; and consumer & other. The loan portfolio pools were selected in order to generally align with the loan categories specified in the quarterly call reports required to be filed with the Federal Financial Institutions Examination Council. For each of these loan pools, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speed, curtailments, time to recovery, probability of default, and loss given default. The modeling of expected prepayment speeds, curtailment rates, and time to recovery are based on historical internal data. The Company uses regression analysis of historical internal and peer data to determine suitable loss drivers to utilize when modeling lifetime probability of default and loss given default. This analysis also determines how expected probability of default and loss given default will react to forecasted levels of the loss drivers.

For all DCF models, management has determined that four quarters represents a reasonable and supportable forecast period and reverts to a historical loss rate over four quarters on a straight-line basis. Management leverages economic projections from a reputable and independent third party to inform its loss driver forecasts over the four-quarter forecast period. Other internal and external indicators of economic forecasts are also considered by management when developing the forecast metrics.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in the national unemployment rate, commercial real estate price index, housing price index and national retail sales index.

The allowance for credit losses is measured based on call report segment as these types of loan exhibit similar risk characteristics. The identified loan segments are as follows:

- 1-4 family construction
- All other construction
- 1-4 family revolving home equity lines of credit ("HELOC") & junior liens
- 1-4 family senior liens
- Multifamily
- Owner occupies commercial real estate
- Non-owner occupied commercial real estate
- Commercial & industrial, agricultural, non-depository financial institutions, purchase/carry securities, other
- Consumer auto
- Other consumer
- Other consumer - SPF

The combination of adjustments for credit expectations (default and loss) and time expectations prepayment, curtailment, and time to recovery) produces an expected cash flow stream at the instrument level. Instrument effective yield is calculated, net of the impacts of prepayment assumptions, and the instrument expected cash flows are then discounted at that effective yield to produce an instrument-level net present value of expected cash flows ("NPV"). An allowance for credit loss is established for the difference between the instrument's NPV and amortized cost basis.

The allowance for credit losses for each segment is measured through the use of the discounted cash flow method. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies:

- Management has a reasonable expectation at the reporting date that troubled debt restructuring will be executed with an individual borrower.
- The extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Loans considered impaired, according to ASC 326, are loans for which, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. The aggregate amount of impairment of loans is utilized in evaluating the adequacy of the allowance for credit losses and amount of provisions thereto. Losses on impaired loans are charged against the allowance for credit losses when in the process of collection, it appears likely that such losses will be realized. The accrual of interest on impaired loans is discontinued when, in management's opinion the collection of interest is doubtful or generally when loans are 90 days or more past due. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans are placed on non-accrual status when management believes that the borrower's financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful, or generally when loans are 90 days or more past due. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely. Accrued interest related to non-accrual loans is generally charged against the allowance for credit losses when accrued in prior years and reversed from interest income if accrued in the current year. Interest income on non-accrual loans may be recognized to the extent cash payments are received, although the majority of payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status when principal and interest payments are less than 90 days past due, the customer has made required payments for at least six months, and we reasonably expect to collect all principal and interest.

Acquisition Accounting and Acquired Loans. We account for our acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. In accordance with ASC 326, the Company records both a discount and an allowance for credit losses on acquired loans. All purchased loans are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, *Fair Value Measurements*. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through provision for credit loss.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures. The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted as unfunded commitments expense within non-interest expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Specific Allocations. As a general rule, if a specific allocation is warranted, it is the result of an analysis of a previously classified credit or relationship. Typically, when it becomes evident through the payment history or a financial statement review that a loan or relationship is no longer supported by the cash flows of the asset and/or borrower and has become collateral dependent, we will use appraisals or other collateral analysis to determine if collateral impairment has occurred. The amount or likelihood of loss on this credit may not yet be evident, so a charge-off would not be prudent. However, if the analysis indicates that an impairment has occurred, then a specific allocation will be determined for this loan. If our existing appraisal is outdated or the collateral has been subject to significant market changes, we will obtain a new appraisal for this impairment analysis. The majority of our impaired loans are collateral dependent at the present time, so third-party appraisals were used to determine the necessary impairment for these loans. Cash flow available to service debt was used for the other impaired loans. This analysis is performed each quarter in connection with the preparation of the analysis of the adequacy of the allowance for credit losses, and if necessary, adjustments are made to the specific allocation provided for a particular loan.

For collateral dependent loans, we do not consider an appraisal outdated simply due to the passage of time. However, if an appraisal is older than 13 months and if market or other conditions have deteriorated and we believe that the current market value of the property is not within approximately 20% of the appraised value, we will consider the appraisal outdated and order either a new appraisal or an internal validation report for the impairment analysis. The recognition of any provision or related charge-off on a collateral dependent loan is either through annual credit analysis or, many times, when the relationship becomes delinquent. If the borrower is not current, we will update our credit and cash flow analysis to determine the borrower's repayment ability. If we determine this ability does not exist and it appears that the collection of the entire principal and interest is not likely, then the loan could be placed on non-accrual status. In any case, loans are classified as non-accrual no later than 105 days past due. If the loan requires a quarterly impairment analysis, this analysis is completed in conjunction with the completion of the analysis of the adequacy of the allowance for credit losses. Any exposure identified through the impairment analysis is shown as a specific reserve on the individual impairment. If it is determined that a new appraisal or internal validation report is required, it is ordered and will be taken into consideration during completion of the next impairment analysis.

In estimating the net realizable value of the collateral, management may deem it appropriate to discount the appraisal based on the applicable circumstances. In such case, the amount charged off may result in loan principal outstanding being below fair value as presented in the appraisal.

Between the receipt of the original appraisal and the updated appraisal, we monitor the loan's repayment history. If the loan is $3.0 million or greater or the total loan relationship is $5.0 million or greater, our policy requires an annual credit review. Our policy requires financial statements from the borrowers and guarantors at least annually. In addition, we calculate the global repayment ability of the borrower/guarantors at least annually.

As a general rule, when it becomes evident that the full principal and accrued interest of a loan may not be collected, or by law at 105 days past due, we will reflect that loan as non-performing. It will remain non-performing until it performs in a manner that it is reasonable to expect that we will collect the full principal and accrued interest.

When the amount or likelihood of a loss on a loan has been determined, a charge-off should be taken in the period it is determined. If a partial charge-off occurs, the quarterly impairment analysis will determine if the loan is still impaired, and thus continues to require a specific allocation.

Loans Collectively Evaluated for Impairment. Loans receivable collectively evaluated for impairment increased by approximately $100.0 million from $10.66 billion at December 31, 2019 to $10.76 billion at December 31, 2020. The percentage of the allowance for credit losses allocated to loans receivable collectively evaluated for impairment to the total loans collectively evaluated for impairment increased from 0.91% at December 31, 2019 to 2.18% at December 31, 2020.

Charge-offs and Recoveries. Total charge-offs increased to $14.5 million for the year ended December 31, 2020, compared to $10.6 million for the year ended December 31, 2019. Total recoveries decreased to $2.1 million for the year ended December 31, 2020, compared to $2.6 million for the same period in 2019.

The net loans charged off for the years ended December 31, 2020, 2019 and 2018 were $12.4 million, $8.0 million and $5.8 million, respectively. For the years ended December 31, 2020, 2019 and 2018, approximately $4.4 million, $4.0 million and $3.7 million, respectively, of the net charge-offs are from our Arkansas market. For the years ended December 31, 2020 2019 and 2018, approximately $7.9 million, $ 3.6 million and $ 1.9 million, respectively, of the net charge -offs are from our Florida market. Approximately $11,000, $295,000 and $176,000 relates to net charge-offs for the years ended December 31, 2020, 2019 and 2018, respectively, on loans in our Alabama market. For the years ended December 31, 2020, 2019 and 2018, approximately $80,000, $83,000 and zero of the net charge-offs are from our SPF market. There have been zero charge-offs for Centennial CFG since the franchise was formed in 2015.

While the 2020 charge-offs and recoveries consisted of many relationships, there were two individual relationships consisting of charge-offs greater than $1.0 million. The first was a $1.9 million charge-off for a commercial and industrial loan that had been acquired in the Stonegate acquisition. The second was a $2.5 million charge-off for a commercial and industrial loan in our Florida market. For the year ended December 31, 2019, there were no individual relationships consisting of charge-offs greater than $1.0 million.

We have not charged off an amount less than what was determined to be the fair value of the collateral as presented in the appraisal, less estimated costs to sell (for collateral dependent loans), for any period presented. Loans partially charged-off are placed on non-accrual status until it is proven that the borrower's repayment ability with respect to the remaining principal balance can be reasonably assured. This is usually established over a period of 6-12 months of timely payment performance.

Table 14 shows the allowance for credit losses, charge-offs and recoveries for loans as of and for the years ended December 31, 2020, 2019, 2018, 2017 and 2016.

Table 14: Analysis of Allowance for credit losses

	As of December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Balance, beginning of year	$ 102,122	$ 108,791	$ 110,266	$ 80,002	$ 69,224
Impact of adopting ASC 326	43,988	—	—	—	—
Allowance for credit losses on acquired loans	357	—	—	—	—
Loans charged off					
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	2,990	2,741	1,211	3,622	3,586
Construction/land development	1,218	1,450	399	1,632	382
Agricultural	51	—	—	127	—
Residential real estate loans:					
Residential 1-4 family	485	1,661	2,744	3,895	4,986
Multifamily residential	—	—	—	85	611
Total real estate	4,744	5,852	4,354	9,361	9,565
Consumer	296	293	285	198	220
Commercial and industrial	7,764	2,327	2,221	5,578	5,778
Agricultural	—	—	—	—	—
Other	1,682	2,131	2,128	2,334	1,938
Total loans charged off	14,486	10,603	8,988	17,471	17,501
Recoveries of loans previously charged off					
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	638	244	527	1,042	857
Construction/land development	107	95	180	462	1,125
Agricultural	9	—	—	—	—
Residential real estate loans:					
Residential 1-4 family	337	913	878	621	1,098
Multifamily residential	—	13	46	55	54
Total real estate	1,091	1,265	1,631	2,180	3,134
Consumer	108	112	190	119	209
Commercial and industrial	218	504	624	464	5,533
Agricultural	—	—	—	—	—
Other	653	728	746	722	795
Total recoveries	2,070	2,609	3,191	3,485	9,671
Net loans charged off (recovered)	12,416	7,994	5,797	13,986	7,830
Provision for credit loss - loans	102,113	1,325	4,322	44,250	18,608
Provision for credit loss - acquired loans	9,309	—	—	—	—
Balance, end of year	$ 245,473	$ 102,122	$ 108,791	$ 110,266	$ 80,002
Net charge-offs (recoveries) to average loans receivable	0.11%	0.08%	0.05%	0.17%	0.11%
Allowance for credit losses to total loans	2.19	0.94	0.98	1.07	1.08
Allowance for credit losses to net charge-offs (recoveries)	1,977	1,277	1,877	788	1,022

Table 15 presents the allocation of allowance for credit losses as of December 31, 2020, 2019, 2018, 2017 and 2016.

Table 15: Allocation of Allowance for Credit Losses

	As of December 31,									
	2020		2019		2018		2017		2016	
	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)	Allowance Amount	% loan
	(Dollars in thousands)									
Real estate:										
Commercial real estate loans:										
Non-farm/non-residential	$ 87,043	39.5%	$ 32,776	40.6%	$ 41,721	43.4%	$ 42,893	44.5%	$ 27,695	
Construction/ land development	32,861	13.9	26,433	16.3	21,302	14.0	20,343	16.4	11,522	
Agricultural residential real estate loans:	1,410	1.0	753	0.8	615	0.7	1,046	0.8	493	
Residential 1-4 family	47,754	13.7	16,758	16.7	22,547	17.8	21,370	19.1	14,397	
Multifamily residential	5,462	4.8	3,377	4.5	4,187	5.1	3,136	4.3	2,120	
Total real estate	174,530	72.9	80,097	78.9	90,372	81.0	88,788	85.1	56,227	
Consumer	21,905	7.7	1,906	4.7	1,153	4.0	462	0.4	398	
Commercial and industrial	46,061	16.9	16,615	14.1	14,981	13.3	15,292	12.6	12,756	
Agricultural	469	0.6	3,504	0.6	2,175	0.4	2,692	0.5	3,790	
Other	2,508	1.9	—	1.7	110	1.3	180	1.4	—	
Unallocated	—	—	—	—	—	—	2,852	—	6,831	
Total	$ 245,473	100.0%	$ 102,122	100.0%	$ 108,791	100.0%	$ 110,266	100.0%	$ 80,002	

(1) Percentage of loans in each category to total loans receivable.

Investment Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The estimated effective duration of our securities portfolio was 2.8 years as of December 31, 2020.

Effective January 1, 2019, as permitted by ASU 2017-12, *Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities*, the Company reclassified the prepayable held-to-maturity investment securities, with a fair value of $193.6 million and $834,000 in net unrealized gains as of December 31, 2018, to available-for-sale investment securities.

As of December 31, 2018, we had $192.8 million of held-to-maturity securities. Of the $192.8 million of held-to-maturity securities as of December 31, 2018, $3.3 million were invested in U.S. Government-sponsored enterprises, $57.3 million were invested in mortgage-backed securities and $132.2 million were invested in state and political subdivisions.

Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders' equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale. Available-for-sale securities were $2.47 billion and $2.08 billion as of December 31, 2020 and 2019, respectively.

As of December 31, 2020, $1.18 billion, or 47.6%, of our available-for-sale securities were invested in mortgage-backed securities, compared to $1.21 billion, or 58.2%, of our available-for-sale securities as of December 31, 2019. To reduce our income tax burden, $927.9 million, or 37.5%, of our available-for-sale securities portfolio as of December 31, 2020, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to $439.6 million, or 21.1%, of our available-for-sale securities as of December 31, 2019. We had $327.0 million, or 13.2%, invested in obligations of U.S. Government-sponsored enterprises as of December 31, 2020, compared to $397.6 million, or 19.1%, of our available-for-sale securities as of December 31, 2019. Also, we had approximately $41.0 million, or 1.7%, invested in other securities as of December 31, 2020, compared to $33.0 million, or 1.6%, of our available-for-sale securities as of December 31, 2019.

Beginning January 1, 2020, the Company evaluates all securities quarterly to determine if any debt securities in a loss position require a provision for credit losses in accordance with ASC 326, *Measurement of Credit Losses on Financial Instruments*. The Company first assesses whether it intends to sell or is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities that do not meet these criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, and changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met. For the three months ended March 31, 2020, the Company determined a provision for credit losses of $842,000 was necessary for the investment portfolio as a result of economic uncertainties related to COVID-19. For the remainder of the year ended December 31, 2020, the Company determined that no additional provision for credit losses was necessary for the portfolio.

Table 16 presents the carrying value and fair value of investment securities as of December 31, 2020, 2019 and 2018.

Table 16: Investment Securities

	As of December 31, 2020				As of December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)							
Available-for-sale								
U.S. government-sponsored enterprises	$ 325,860	$ 2,338	$ (1,207)	$ 326,991	$ 398,870	$ 1,001	$ (2,321)	$ 397,550
Residential mortgage-backed securities	703,138	10,607	(688)	713,057	689,955	4,735	(1,241)	693,449
Commercial mortgage-backed securities	446,964	18,048	(126)	464,886	514,287	6,647	(642)	520,292
State and political subdivisions	898,174	31,173	(1,454)	927,893	425,989	13,824	(257)	439,556
Other securities	40,755	434	(235)	40,954	32,748	409	(166)	32,991
Total	$ 2,414,891	$ 62,600	$ (3,710)	$ 2,473,781	$ 2,061,849	$ 26,616	$ (4,627)	$ 2,083,838

	As of December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Available-for-sale				
U.S. government-sponsored enterprises	$ 418,605	$ 504	$ (4,976)	$ 414,133
Residential mortgage-backed securities	580,183	1,230	(8,512)	572,901
Commercial mortgage-backed securities	463,084	539	(7,745)	455,878
State and political subdivisions	308,835	2,311	(2,589)	308,557
Other securities	34,336	304	(247)	34,393
Total	$ 1,805,043	$ 4,888	$ (24,069)	$ 1,785,862
Held-to-maturity				
U.S. government-sponsored enterprises	$ 3,261	$ 14	$ (71)	$ 3,204
Residential mortgage-backed securities	39,707	20	(689)	39,038
Commercial mortgage-backed securities	17,587	58	(267)	17,378
State and political subdivisions	132,221	1,815	(46)	133,990
Total	$ 192,776	$ 1,907	$ (1,073)	$ 193,610

Table 17 reflects the amortized cost and estimated fair value of debt securities as of December 31, 2020, by contractual maturity and the weighted-average yields (for tax-exempt obligations on a fully taxable equivalent basis) of those securities. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Table 17: Maturity Distribution of Investment Securities

	December 31, 2020						
	1 Year or Less	1 Year Through 5 Years	5 Years Through 10 Years	Over 10 Years	Monthly Amortizing Securities	Total Amortized Cost	Total Fair Value
	(Dollars in thousands)						
Available-for-sale							
U.S. Government-sponsored enterprises	$ 2,868	$ 17,711	$ 145,198	$ 160,083	$ —	$ 325,860	$ 326,991
State and political subdivisions	6,371	26,398	64,314	801,091	—	898,174	927,893
Residential mortgage-backed securities	—	—	—	—	703,138	703,138	713,057
Commercial mortgage-backed securities	—	—	—	—	446,964	446,964	464,886
Other securities	—	6,997	11,496	20,262	2,000	40,755	40,954
Total	$ 9,239	$ 51,106	$ 221,008	$ 981,436	$ 1,152,102	$ 2,414,891	$ 2,473,781
Percentage of total amortized cost	0.4%	2.1%	9.2%	40.6%	47.7%	100.0%	
Weighted-average yield	2.8%	3.1%	2.2%	2.4%	1.6%	2.0%	

Deposits

Our deposits averaged $12.44 billion for the year ended December 31, 2020 and $11.14 billion for 2019. Total deposits increased $1.45 billion, or 12.8%, to $12.73 billion as of December 31, 2020, from $11.28 billion as of December 31, 2019. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions.

Our policy also permits the acceptance of brokered deposits. From time to time, when appropriate in order to fund strong loan demand, we accept brokered time deposits, generally in denominations of less than $250,000, from a regional brokerage firm, and other national brokerage networks. We also participate in the One-Way Buy Insured Cash Sweep ("ICS") service and similar services, which provide for one-way buy transactions among banks for the purpose of purchasing cost-effective floating-rate funding without collateralization or stock purchase requirements. Management believes these sources represent a reliable and cost-efficient alternative funding source for the Company. However, to the extent that our condition or reputation deteriorates, or to the extent that there are significant changes in market interest rates which we do not elect to match, we may experience an outflow of brokered deposits. In that event we would be required to obtain alternate sources for funding.

Table 18 reflects the classification of the brokered deposits as of December 31, 2020 and 2019.

Table 18: Brokered Deposits

	December 31, 2020	December 31, 2019
	(In thousands)	
Time Deposits	$ 10,000	$ 95,399
CDARS	—	109
Insured Cash Sweep and Other Transaction Accounts	625,681	484,169
Total Brokered Deposits	$ 635,681	$ 579,677

The interest rates paid are competitively priced for each particular deposit product and structured to meet our funding requirements. We will continue to manage interest expense through deposit pricing. We may allow higher rate deposits to run off during periods of limited loan demand. We believe that additional funds can be attracted, and deposit growth can be realized through deposit pricing if we experience increased loan demand or other liquidity needs.

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds target rate, which is the cost to banks of immediately available overnight funds, increased four times from a target rate of 0.25% to 0.50% as of December 31, 2015 to a target rate of 1.25% to 1.50% as of December 31, 2017. The Federal Reserve increased the target rate four times in 2018. First, the target rate was increased to 1.50% to 1.75% on March 21, 2018; second, the rate was increased on June 13, 2018 to 1.75% to 2.00%; third, the rate was increased on September 26, 2018 to 2.00% to 2.25%; and fourth, the rate was increased on December 19, 2018 to 2.25% to 2.50%. The Federal Reserve lowered the target rate three times during 2019. First, the target rate was lowered to 2.00% to 2.25% on July 31, 2019; second, the rate was lowered on September 18, 2019 to 1.75% to 2.00%; and third, the rate was lowered on October 30, 2019 to 1.50% to 1.75%. The Federal Reserve lowered the target rate two times in 2020. First, the target rate was lowered to 1.00% to 1.25% on March 3, 2020; second, the rate was lowered to 0.00% to 0.25% on March 15, 2020. The target rate is currently at 0.00% to 0.25% as of December 31, 2020, which has decreased from the target rate of 1.50% to 1.75% as of December 31, 2019.

Table 19 reflects the classification of the average deposits and the average rate paid on each deposit category which is in excess of 10 percent of average total deposits, for the years ended December 31, 2020, 2019, and 2018.

Table 19: Average Deposit Balances and Rates

	Years Ended December 31,					
	2020		2019		2018	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)					
Non-interest-bearing transaction accounts	$ 2,998,560	—%	$ 2,489,254	—%	$ 2,464,024	—%
Interest-bearing transaction accounts	6,978,839	0.50	6,042,974	1.25	5,767,788	0.99
Savings deposits	707,782	0.13	631,519	0.26	650,398	0.20
Time deposits:						
$100,000 or more	1,346,063	1.70	1,513,510	2.07	1,158,403	1.53
Other time deposits	410,075	1.02	458,530	1.22	487,583	0.75
Total	$ 12,441,319	0.51%	$ 11,135,787	1.02%	$ 10,528,196	0.76%

Table 20 presents our maturities of large denomination time deposits as of December 31, 2020 and 2019.

Table 20: Maturities of Large Denomination Time Deposits ($100,000 or more)

	As of December 31,			
	2020		2019	
	Balance	Percent	Balance	Percent
	(Dollars in thousands)			
Maturing				
Three months or less	$ 200,163	23.2%	$ 297,428	19.3%
Over three months to six months	106,741	12.4	241,443	15.7
Over six months to 12 months	195,581	22.6	598,851	38.8
Over 12 months	361,794	41.8	403,983	26.2
Total	$ 864,279	100.0%	$ 1,541,705	100.0%

Securities Sold Under Agreements to Repurchase

We enter into short-term purchases of securities under agreements to resell (resale agreements) and sales of securities under agreements to repurchase (repurchase agreements) of substantially identical securities. The amounts advanced under resale agreements and the amounts borrowed under repurchase agreements are carried on the balance sheet at the amount advanced. Interest incurred on repurchase agreements is reported as interest expense. Securities sold under agreements to repurchase increased 25.2 million, or 17.5%, from $143.7 million as of December 31, 2019 to $168.9 million as of December 31, 2020.

FHLB and Other Borrowed Funds

Our FHLB borrowed funds were $400.0 million and $621.4 million at December 31, 2020 and 2019, respectively. The Company had no other borrowed funds as of December 31, 2020 or December 31, 2019. At December 31, 2020, all of the outstanding balances were classified as long-term advances. At December 31, 2019, $75.0 million and $546.4 million of the outstanding balance were issued as short-term and long-term advances, respectively. Our remaining FHLB borrowing capacity was $3.32 billion and $2.79 billion as of December 31, 2020 and 2019, respectively. As of December 31, 2020, the entire balance of our FHLB borrowings mature after 2025.

Subordinated Debentures

Subordinated debentures, which consist of subordinated debt securities and guaranteed payments on trust preferred securities, were $370.3 million and $369.6 million as of December 31, 2020 and 2019, respectively.

The trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment subject to certain limitations. Distributions on these securities are included in interest expense. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in our subordinated debentures, the sole asset of each trust. The trust preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the subordinated debentures held by the trust. We wholly own the common securities of each trust. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon our making payment on the related subordinated debentures. Our obligations under the subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by us of each respective trust's obligations under the trust securities issued by each respective trust.

The Bank acquired $12.5 million in trust preferred securities with a fair value of $9.8 million from the Stonegate acquisition. The difference between the fair value purchased of $9.8 million and the $12.5 million face amount, is being amortized into interest expense over the remaining life of the debentures. The associated subordinated debentures are redeemable, in whole or in part, prior to maturity at our option on a quarterly basis when interest is due and payable and in whole at any time within 90 days following the occurrence and continuation of certain changes in the tax treatment or capital treatment of the debentures.

On April 3, 2017, the Company completed an underwritten public offering of $300 million in aggregate principal amount of its 5.625% Fixed-to-Floating Rate Subordinated Notes due 2027 (the "Notes"). The Notes were issued at 99.997% of par, resulting in net proceeds, after underwriting discounts and issuance costs, of approximately $297.0 million. The Notes are unsecured, subordinated debt obligations of the Company and will mature on April 15, 2027. The Notes qualify as Tier 2 capital for regulatory purposes.

Stockholders' Equity

Stockholders' equity was $2.61 billion at December 31, 2020 compared to $2.51 billion at December 31, 2019. The increase in stockholders' equity is primarily associated with the $214.4 million in net income and the $27.9 million increase in accumulated other comprehensive income which were partially offset by the $44.0 million impact of the adoption of ASC 326, $87.7 million of shareholder dividends paid and the repurchase of $25.7 million of our common stock during 2020. The improvement in stockholders' equity was 3.8% for the year ended December 31, 2020 compared to December 31, 2019. As of December 31, 2020 and 2019, our equity to asset ratio was 15.9% and 16.7%, respectively. Book value per common share was $15.78 at December 31, 2020 compared to $15.10 at December 31, 2019.

Common Stock Cash Dividends. We declared cash dividends on our common stock of $0.53, $0.51 and $0.46 per share for the years ended December 31, 2020, 2019 and 2018, respectively. The common stock dividend payout ratio for the year ended December 31, 2020, 2019 and 2018 was 40.88%*, 29.57% and 26.59% respectively.*

Stock Repurchase Program. On January 18, 2019, our Board of Directors authorized the repurchase of up to an additional 5,000,000 shares of our common stock under our previously approved stock repurchase program, which brought the remaining balance of authorized shares to repurchase to 19,752,000 shares. During 2020, we utilized a portion of this stock repurchase program and repurchased a total of 1,533,560 shares with a weighted-average stock price of $16.72 per share. Shares repurchased through December 31, 2020 under the program total 15,908,335 shares. The remaining balance available for repurchase was 3,843,665 shares at December 31, 2020. On January 22, 2021, the Board of Directors of the Company authorized the repurchase of up to an additional 20,000,000 shares of the Company's common stock under this repurchase program.

Liquidity and Capital Adequacy Requirements

Parent Company Liquidity. The primary sources for payment of our operating expenses, and dividends are current cash on hand ($152.7 million as of December 31, 2020), dividends received from our bank subsidiary and a $20.0 million unfunded line of credit with another financial institution.

Risk-Based Capital. We, as well as our bank subsidiary, are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and other discretionary actions by regulators that, if enforced, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classifications are also subject to qualitative judgments by the regulators as to components, risk weightings and other factors.

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" and certain provisions of the Dodd-Frank Act ("Basel III"). Basel III applies to all depository institutions, bank holding companies with total consolidated assets of $500 million or more, and savings and loan holding companies. Basel III became effective for the Company and its bank subsidiary on January 1, 2015. The capital conservation buffer requirement began being phased in beginning January 1, 2016 at the 0.625% level and increased by 0.625% on each subsequent January 1, until it reached 2.5% on January 1, 2019 when the phase-in period ended, and the full capital conservation buffer requirement became effective.

Basel III permanently grandfathers trust preferred securities and other non-qualifying capital instruments that were issued and outstanding as of May 19, 2010 in the Tier 1 capital of bank holding companies with total consolidated assets of less than $15 billion as of December 31, 2009. The rule phases out of Tier 1 capital these non-qualifying capital instruments issued before May 19, 2010 by all other bank holding companies. Because our total consolidated assets were less than $15 billion as of December 31, 2009, our outstanding trust preferred securities continue to be treated as Tier 1 capital. However, now that the Company has exceeded $15 billion in assets, if the Company acquires another financial institution in the future, then the Tier 1 treatment of the Company's outstanding trust preferred securities will be phased out, but those securities will still be treated as Tier 2 capital.

Basel III also amended the prompt corrective action rules to incorporate a "common equity Tier 1 capital" requirement and to raise the capital requirements for certain capital categories. In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization is required to have at least a 4.5% "common equity Tier 1 risk-based capital" ratio, a 4% "Tier 1 leverage capital" ratio, a 6% "Tier 1 risk-based capital" ratio and an 8% "total risk-based capital" ratio.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of December 31, 2020 and 2019, we met all regulatory capital adequacy requirements to which we were subject.

On April 3, 2017, the Company completed an underwritten public offering of $300.0 million in aggregate principal amount of its 5.625% Fixed-to-Floating Rate Subordinated Notes due 2027 (the "Notes"). The Notes are unsecured, subordinated debt obligations and mature on April 15, 2027. The Company may, beginning with the interest payment date of April 15, 2022, and on any interest payment date thereafter, redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to but excluding the date of redemption. The Company may also redeem the Notes at any time, including prior to April 15, 2022, at its option, in whole but not in part, if: (i) a change or prospective change in law occurs that could prevent the Company from deducting interest payable on the Notes for U.S. federal income tax purposes; (ii) a subsequent event occurs that could preclude the Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) the Company is required to register as an investment company under the Investment Company Act of 1940, as amended; in each case, at a redemption price equal to 100% of the principal amount of the Notes plus any accrued and unpaid interest to but excluding the redemption date. The Notes provide the Company with additional Tier 2 regulatory capital to support expected future growth.

On December 21, 2018, the federal banking agencies issued a joint final rule to revise their regulatory capital rules to permit bank holding companies and banks to phase-in, for regulatory capital purposes, the day-one impact of the new CECL accounting rule on retained earnings over a period of three years. As part of its response to the impact of COVID-19, on March 27, 2020, the federal banking regulatory agencies issued an interim final rule that provided the option to temporarily delay certain effects of CECL on regulatory capital for two years, followed by a three-year transition period. The interim final rule allows bank holding companies and banks to delay for two years 100% of the day-one impact of adopting CECL and 25% of the cumulative change in the reported allowance for credit losses since adopting CECL. The Company has elected to adopt the interim final rule, which is reflected in the risk-based capital ratios presented below.

Table 21 presents our risk-based capital ratios as of December 31, 2020 and 2019.

Table 21: Risk-Based Capital

	As of December 31, 2020	As of December 31, 2019
	(Dollars in thousands)	
Tier 1 capital		
Stockholders’ equity	$ 2,605,758	$ 2,511,531
ASC 326 transitional period adjustment	57,333	—
Goodwill and core deposit intangibles, net	(1,003,288)	(994,554)
Unrealized (gain) loss on available-for-sale securities	(44,120)	(16,221)
Total common equity Tier 1 capital	1,615,683	1,500,756
Qualifying trust preferred securities	71,127	70,984
Total Tier 1 capital	1,686,810	1,571,740
Tier 2 capital		
Allowance for credit losses	245,473	102,122
ASC 326 transitional period adjustment	(57,333)	—
Disallowed allowance for credit losses (limited to 1.25% of risk weighted assets)	(36,911)	—
Qualifying allowance for credit losses	151,229	102,122
Qualifying subordinated notes	299,199	298,573
Total Tier 2 capital	450,428	400,695
Total risk-based capital	$ 2,137,238	$ 1,972,435
Average total assets for leverage ratio	$ 15,547,111	$ 13,949,814
Risk weighted assets	$ 12,039,156	$ 12,066,643
Ratios at end of period		
Common equity Tier 1 capital	13.42%	12.44%
Leverage ratio	10.85	11.27
Tier 1 risk-based capital	14.01	13.03
Total risk-based capital	17.75	16.35
Minimum guidelines – Basel III		
Common equity Tier 1 capital	7.00%	7.00%
Leverage ratio	4.00	4.00
Tier 1 risk-based capital	8.50	8.50
Total risk-based capital	10.50	10.50
Well-capitalized guidelines		
Common equity Tier 1 capital	6.50%	6.50%
Leverage ratio	5.00	5.00
Tier 1 risk-based capital	8.00	8.00
Total risk-based capital	10.00	10.00

As of the most recent notification from regulatory agencies, our bank subsidiary was "well-capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well-capitalized", we, as well as our banking subsidiary, must maintain minimum common equity Tier 1 capital, leverage, Tier 1 risk-based capital, and total risk-based capital ratios as set forth in the table. There are no conditions or events since that notification that we believe have changed the bank subsidiary's category.

Table 22 presents actual capital amounts and ratios as of December 31, 2020 and 2019, for our bank subsidiary and us.

Table 22: Capital and Ratios

	Actual		Minimum Capital Requirement – Basel III		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provision	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(Dollars in thousands)			
As of December 31, 2020						
Common equity Tier 1 capital ratios:						
Home BancShares	$ 1,615,683	13.42%	$ 842,741	7.000%	$ N/A	N/A%
Centennial Bank	1,804,392	15.04	839,810	7.000	779,824	6.50
Leverage ratios:						
Home BancShares	$ 1,686,810	10.85%	$ 621,884	4.000%	$ N/A	N/A%
Centennial Bank	1,804,392	11.61	621,668	4.000	777,085	5.00
Tier 1 capital ratios:						
Home BancShares	$ 1,686,810	14.01%	$ 1,023,328	8.500%	$ N/A	N/A%
Centennial Bank	1,804,392	15.04	1,019,769	8.500	959,783	8.00
Total risk-based capital ratios:						
Home BancShares	$ 2,137,238	17.75%	$ 1,264,111	10.500%	$ N/A	N/A%
Centennial Bank	1,955,299	16.30	1,259,548	10.500	1,199,570	10.00
As of December 31, 2019						
Common equity Tier 1 capital ratios:						
Home BancShares	$ 1,500,756	12.44%	$ 844,665	7.000%	$ N/A	N/A%
Centennial Bank	1,744,543	14.47	843,863	7.000	783,587	6.50
Leverage ratios:						
Home BancShares	$ 1,571,740	11.27%	$ 557,993	4.000%	$ N/A	N/A%
Centennial Bank	1,744,543	12.51	557,977	4.000	697,471	5.00
Tier 1 capital ratios:						
Home BancShares	$ 1,571,740	13.03%	$ 1,025,665	8.500%	$ N/A	N/A%
Centennial Bank	1,744,543	14.47	1,024,691	8.500	964,415	8.00
Total risk-based capital ratios:						
Home BancShares	$ 1,972,435	16.35%	$ 1,266,998	10.500%	$ N/A	N/A%
Centennial Bank	1,846,665	15.32	1,265,797	10.500	1,205,521	10.00

Off-Balance Sheet Arrangements and Contractual Obligations

In the normal course of business, we enter into a number of financial commitments. Examples of these commitments include but are not limited to operating lease obligations, FHLB advances & other borrowings, lines of credit, subordinated debentures, unfunded loan commitments and letters of credit.

Commitments to extend credit and letters of credit are legally binding, conditional agreements generally having certain expiration or termination dates. These commitments generally require customers to maintain certain credit standards and are established based on management's credit assessment of the customer. The commitments may expire without being drawn upon. Therefore, the total commitment does not necessarily represent future requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to $56.1 million and $58.9 million at December 31, 2020 and 2019, respectively, with the majority of maturities ranging from currently due to four years.

Table 23 presents the anticipated funding requirements of our most significant financial commitments, excluding interest, as of December 31, 2020.

Table 23: Funding Requirements of Financial Commitments

	Payments Due by Period				
	Less than One Year	One-Three Years	Three-Five Years	Greater than Five Years	Total
	(In thousands)				
Operating lease obligations	$ 8,235	$ 12,200	$ 10,080	$ 27,453	57,968
FHLB advances & other borrowings by contractual maturity	—	—	—	400,000	400,000
Subordinated debentures	—	—	—	370,326	370,326
Loan commitments	1,478,638	825,107	189,853	329,864	2,823,462
Letters of credit	55,566	464	—	37	56,067

Non-GAAP Financial Measurements

Our accounting and reporting policies conform to generally accepted accounting principles in the United States (“GAAP”) and the prevailing practices in the banking industry. However, this report contains financial information determined by methods other than in accordance with GAAP, including earnings, as adjusted; diluted earnings per common share, as adjusted; tangible book value per share; return on average assets, excluding intangible amortization; return on average assets, as adjusted; return on average common equity, as adjusted; return on average tangible equity excluding intangible amortization; return on average tangible equity, as adjusted; tangible equity to tangible assets; and efficiency ratio, as adjusted.

We believe these non-GAAP measures and ratios, when taken together with the corresponding GAAP measures and ratios, provide meaningful supplemental information regarding our performance. We believe investors benefit from referring to these non-GAAP measures and ratios in assessing our operating results and related trends, and when planning and forecasting future periods. However, these non-GAAP measures and ratios should be considered in addition to, and not as a substitute for or preferable to, ratios prepared in accordance with GAAP.

The tables below present non-GAAP reconciliations of earnings, as adjusted, and diluted earnings per share, as adjusted as well as the non-GAAP computations of tangible book value per share; return on average assets, excluding intangible amortization; return on average assets, as adjusted; return on average common equity, as adjusted; return on average tangible equity excluding intangible amortization; return on average tangible equity, as adjusted; tangible equity to tangible assets; and efficiency ratio, as adjusted. The items used in these calculations are included in financial results presented in accordance with GAAP.

Earnings, as adjusted, and diluted earnings per common share, as adjusted, are meaningful non-GAAP financial measures for management, as they exclude certain items such as merger expenses and/or certain gains and losses. Management believes the exclusion of these items in expressing earnings provides a meaningful foundation for period-to-period and company-to-company comparisons, which management believes will aid both investors and analysts in analyzing our financial measures and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of our business, because management does not consider these items to be relevant to ongoing financial performance.

In Table 24 below, we have provided a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated.

Table 24: Earnings, As Adjusted

	2020	2019	2018
	(In thousands, except per share data)		
GAAP net income available to common shareholders (A)	$ 214,448	$ 289,539	$ 300,403
Adjustments:			
Fair value adjustment for marketable securities	1,978	—	(499)
FDIC Small Bank Assessment Credit	—	(2,291)	—
Provision for credit losses (1)	112,264	1,325	4,322
Branch write-off expense	981	—	—
Unfunded commitment expense (2)	16,989	—	—
Special dividend from equity investment	(10,185)	(2,995)	—
Merger expenses	711	—	6,013
Hurricane expenses	—	897	470
Outsourced special project expense	1,092	1,531	—
Total adjustments	123,830	(1,533)	10,306
Tax-effect of adjustments (3)	32,363	(396)	2,693
Adjustments after-tax	91,467	(1,137)	7,613
BOLI redemption tax	—	3,667	—
Total adjustments after tax (B)	91,467	2,530	7,613
Earnings, as adjusted (C)	$ 305,915	$ 292,069	$ 308,016
Average diluted shares outstanding (D)	165,373	167,804	174,124
GAAP diluted earnings per share: A/D	$ 1.30	$ 1.73	$ 1.73
Adjustments after-tax: B/D	0.55	0.01	0.04
Diluted earnings per common share excluding adjustments: C/D	$ 1.85	$ 1.74	$ 1.77

(1) The provision for credit losses for the year ended December 31, 2020 consists of the following components: provision for credit loss – investment securities: $842,000; provision for credit loss – acquired loans: $9.3 million; COVID-19 provision for credit loss - loans: $102.1 million.

(2) The total amount of the unfunded commitment expense was due to an increase in the expected funding percentages for the Company's unfunded commitments as well as an increase in the unemployment rate projections from January 1, 2020 to December 31, 2020, due to COVID-19, as the Company's provisioning model is significantly tied to projected unemployment rates.

(3) Blended statutory tax rate of 26.135% for 2020, 25.819% for 2019 and 26.135% for 2018.

We had $1.00 billion, $995.0 million and $1.00 billion total goodwill, core deposit intangibles and other intangible assets as of December 31, 2020, 2019 and 2018, respectively. Because of our level of intangible assets and related amortization expenses, management believes tangible book value per share; return on average assets, excluding intangible amortization; return on average assets, as adjusted; return on average common equity, as adjusted; return on average tangible equity excluding intangible amortization; return on average tangible equity, as adjusted; tangible equity to tangible assets; and efficiency ratio, as adjusted are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per common share, book value, return on average assets, return on average equity, and equity to assets, are presented in Tables 25 through 28, respectively.

Table 25: Tangible Book Value Per Share

	Years Ended December 31,		
	2020	2019	2018
	(In thousands, except per share data)		
Book value per share: A/B	$ 15.78	$ 15.10	$ 13.76
Tangible book value per share: (A-C-D)/B	9.70	9.12	7.90
(A) Total equity	$ 2,605,758	$ 2,511,531	$ 2,349,886
(B) Shares outstanding	165,095	166,373	170,720
(C) Goodwill	973,025	958,408	958,408
(D) Core deposit and other intangibles	30,728	36,572	42,896

Table 26: Return on Average Assets Excluding Intangible Amortization

	Years Ended December 31, 2020	2019	2018
	(Dollars in thousands)		
Return on average assets: A/D	1.33%	1.93%	2.06%
Return on average assets excluding intangible amortization: (A+B)/(D-E)	1.45	2.10	2.25
Return on average assets excluding fair value adjustment for marketable securities, FDIC Small Bank Assessment Credit, provision for credit losses, branch write-off expense, unfunded commitment expense, special dividend from equity investment, merger expenses, hurricane expense, outsourced special project expense and BOLI redemption tax: (ROA, as adjusted) (A+C)/D	1.90	1.94	2.11
(A) Net income	$ 214,448	$ 289,539	$ 300,403
(B) Intangible amortization after-tax	4,317	4,691	4,767
(C) Adjustments after-tax	91,467	2,530	7,613
(D) Average assets	16,137,294	15,028,500	14,567,213
(E) Average goodwill, core deposits and other intangible assets	1,004,157	998,090	989,033

Table 27: Return on Average Tangible Equity Excluding Intangible Amortization

	Years Ended December 31, 2020	2019	2018
	(Dollars in thousands)		
Return on average equity: A/D	8.57%	12.01%	13.17%
Return on average common equity excluding fair value adjustment for marketable securities, FDIC Small Bank Assessment Credit, provision for credit losses, branch write-off expense, unfunded commitment expense, special dividend from equity investment, merger expenses, hurricane expense, outsourced special project expense and BOLI redemption tax: (ROE, as adjusted) (A+C)/D	12.22	12.11	13.50
Return on average tangible equity excluding intangible amortization: B/(D-E)	14.59	20.83	23.62
Return on average tangible common equity excluding fair value adjustment for marketable securities, FDIC Small Bank Assessment Credit, provision for credit losses, branch write-off expense, unfunded commitment expense, special dividend from equity investment, merger expenses, hurricane expense, outsourced special project expense and BOLI redemption tax: (ROTCE, as adjusted) (A+C)/(D-E)	20.41	20.67	23.84
(A) Net income	$ 214,448	$ 289,539	$ 300,403
(B) Earnings excluding intangible amortization	218,765	294,230	305,170
(C) Adjustments after-tax	91,467	2,530	7,613
(D) Average equity	2,503,200	2,410,853	2,281,055
(E) Average goodwill, core deposits and other intangible assets	1,004,157	998,090	989,033

Table 28: Tangible Equity to Tangible Assets

	Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Equity to assets: B/A	15.89%	16.71%	15.36%
Tangible equity to tangible assets: (B-C-D)/(A-C-D)	10.41	10.80	9.43
(A) Total assets	$ 16,398,804	$ 15,032,047	$ 15,302,438
(B) Total equity	2,605,758	2,511,531	2,349,886
(C) Goodwill	973,025	958,408	958,408
(D) Core deposit and other intangibles	30,728	36,572	42,896

The efficiency ratio is a standard measure used in the banking industry and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income. The efficiency ratio, as adjusted, is a meaningful non-GAAP measure for management, as it excludes certain items and is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding items such as merger expenses and/or certain other gains and losses. In Table 29 below, we have provided a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated.

Table 29: Efficiency Ratio, As Adjusted

	Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Net interest income (A)	$ 582,555	$ 563,217	$ 561,013
Non-interest income (B)	111,786	99,516	102,832
Non-interest expense (C)	304,374	275,787	264,003
FTE Adjustment (D)	6,015	5,255	5,513
Amortization of intangibles (E)	5,844	6,324	6,455
Adjustments:			
Non-interest income:			
Fair value adjustment for marketable securities	$ (1,978)	$ —	$ (499)
Special dividend from equity investment	10,185	2,995	—
Gain (loss) on OREO, net	1,132	757	2,401
Gain (loss) on branches, equipment and other assets, net	326	(3)	(120)
Gain (loss) on securities, net	—	(2)	—
Total non-interest income adjustments (F)	$ 9,665	$ 3,747	$ 1,782
Non-interest expense:			
Branch write-off expense	$ 981	$ —	$ —
Unfunded commitments expense	16,989	—	—
FDIC Small Bank Assessment Credit	—	(2,291)	—
Merger expenses	711	—	6,013
Hurricane damage expense	—	897	470
Outsourced special project expense	1,092	1,531	—
Total non-core non-interest expense (G)	$ 19,773	$ 137	$ 6,483
Efficiency ratio (reported): ((C-E)/(A+B+D))	42.63%	40.34%	38.48%
Efficiency ratio, as adjusted (non-GAAP): ((C-E-G)/(A+B+D-F))	40.36	40.55	37.61

Table 30 presents selected unaudited quarterly financial information for 2020 and 2019.

Table 30: Quarterly Results

	2020 Quarters				
	First	Second	Third	Fourth	Total
	(In thousands, except per share data)				
Income statement data:					
Total interest income	$ 172,175	$ 171,598	$ 166,633	$ 165,556	$ 675,962
Total interest expense	32,450	22,931	20,495	17,531	93,407
Net interest income	139,725	148,667	146,138	148,025	582,555
Provision for credit losses	86,823	11,441	14,000	—	112,264
Net interest income after provision for credit losses	52,902	137,226	132,138	148,025	470,291
Total non-interest income	22,927	25,023	29,951	33,885	111,786
Total non-interest expense	78,249	80,172	71,712	74,241	304,374
Income before income taxes	(2,420)	82,077	90,377	107,669	277,703
Income tax expense	(2,927)	19,250	21,057	25,875	63,255
Net income	$ 507	$ 62,827	$ 69,320	$ 81,794	$ 214,448
Per share data:					
Basic earnings per common share	$ —	$ 0.38	$ 0.42	$ 0.50	$ 1.30
Diluted earnings per common share	—	0.38	0.42	0.50	1.30

	2019 Quarters				
	First	Second	Third	Fourth	Total
	(In thousands, except per share data)				
Income statement data:					
Total interest income	$ 179,487	$ 181,287	$ 182,082	$ 175,132	$ 717,988
Total interest expense	40,017	40,300	39,105	35,349	154,771
Net interest income	139,470	140,987	142,977	139,783	563,217
Provision for credit losses	—	1,325	—	—	1,325
Net interest income after provision for credit losses	139,470	139,662	142,977	139,783	561,892
Total non-interest income	23,672	23,066	24,749	28,029	99,516
Total non-interest expense	69,057	67,624	67,764	71,342	275,787
Income before income taxes	94,085	95,104	99,962	96,470	385,621
Income tax expense	22,735	22,940	27,199	23,208	96,082
Net income	$ 71,350	$ 72,164	$ 72,763	$ 73,262	$ 289,539
Per share data:					
Basic earnings per common share	$ 0.42	$ 0.43	$ 0.44	$ 0.44	$ 1.73
Diluted earnings per common share	0.42	0.43	0.44	0.44	1.73

Recent Accounting Pronouncements

See Note 24 to the Notes to Consolidated Financial Statements for a discussion of certain recent accounting pronouncements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Liquidity and Market Risk Management

Liquidity Management. Liquidity refers to the ability or the financial flexibility to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows us to have sufficient funds available for reserve requirements, customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. Our primary source of liquidity for our holding company is dividends paid by our bank subsidiary. Applicable statutes and regulations impose restrictions on the amount of dividends that may be declared by our bank subsidiary. Further, any dividend payments are subject to the continuing ability of the bank subsidiary to maintain compliance with minimum federal regulatory capital requirements and to retain its characterization under federal regulations as a "well-capitalized" institution.

Our bank subsidiary has potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers. Many of these obligations and commitments to fund future borrowings to our loan customers are expected to expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position.

Due to the COVID-19 pandemic, the Company made a strategic decision to increase our liquidity position for the year ended December 31, 2020. Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, unpledged available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of December 31, 2020, our cash and cash equivalents were $1.26 billion, or 7.7% of total assets, compared to $490.6 million, or 3.3% of total assets, as of December 31, 2019. Our unpledged available-for-sale investment securities and federal funds sold were $1.39 billion and $1.21 billion as of December 31, 2020 and 2019, respectively.

As of December 31, 2020, our investment portfolio was comprised of approximately 59.1% or $1.46 billion of securities which mature or are expected to paydown within five years. As of December 31, 2020 and 2019, $1.08 billion and $865.4 million, respectively, of securities were pledged to secure public deposits, as collateral for repurchase agreements and for other purposes required or permitted by law. The Company defines the liquidity ratio as the sum of cash, unpledged securities and federal funds sold divided by total liabilities. The Company's liquidity ratio was 19.22% as of December 31, 2020 compared to 13.65% as of December 31, 2019. Management believes our current liquidity position is adequate to meet foreseeable liquidity requirements.

On the liability side, our principal sources of liquidity are deposits, borrowed funds, and access to capital markets. Customer deposits are our largest sources of funds. As of December 31, 2020, our total deposits were $12.73 billion, or 77.6% of total assets, compared to $11.28 billion, or 75.0% of total assets, as of December 31, 2019. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

In the event that additional short-term liquidity is needed to temporarily satisfy our liquidity needs, we have established and currently maintain lines of credit with the Federal Reserve Bank ("Federal Reserve") and First National Bankers' Bank to provide short-term borrowings in the form of federal funds purchases. In addition, we maintain lines of credit with two other financial institutions.

As of December 31, 2020 and 2019, we could have borrowed up to $441.8 million and $325.6 million, respectively, on a secured basis from the Federal Reserve, up to $30.0 million from First National Bankers' Bank on an unsecured basis, up to $20.0 million from First National Bankers' Bank on a secured basis and up to $45.0 million in the aggregate from other financial institutions on an unsecured basis. The unsecured lines may be terminated by the respective institutions at any time.

The lines of credit we maintain with the FHLB can provide us with both short-term and long-term forms of liquidity on a secured basis. FHLB borrowed funds were $400.0 million and $621.4 million at December 31, 2020 and 2019, respectively. The Company had no other borrowed funds as of December 31, 2020 or 2019. At December 31, 2020, the entire outstanding balance was classified as long-term advances. At December 31, 2019, $75.0 million and $546.4 million of the outstanding balance were issued as short-term and long-term advances, respectively. Our FHLB borrowing capacity was $3.32 billion and $2.79 billion as of December 31, 2020 and 2019, respectively.

We also have the ability to borrow funds under the Federal Reserve's Paycheck Protection Program Liquidity Facility (the "PPPLF") which was established to facilitate lending by financial institutions to small businesses under the PPP by providing term financing to participating financial institutions. Under the PPPLF, the Federal Reserve will lend to eligible and participating financial institutions on a non-recourse basis up to the aggregate principal balance of the PPP loans originated or purchased by the financial institution, with the PPP loans serving as collateral for the PPPLF borrowing. As of December 31, 2020, we could have borrowed up to $691.7 million from the Federal Reserve under the PPPLF. Borrowings under the PPPLF mature upon the maturity of each underlying PPP loan and will be accelerated in the event the underlying PPP loan goes into default or the eligible borrower sells the PPP loan to the SBA to realize on the SBA guarantee, and to the extent the eligible borrower receives any loan forgiveness reimbursement from the SBA.

We believe that we have sufficient liquidity to satisfy our current operations.

Market Risk Management. Our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which possess a short term to maturity. We do not hold market risk sensitive instruments for trading purposes.

Asset/Liability Management. Our management actively measures and manages interest rate risk. The asset/liability committees of the boards of directors of our holding company and bank subsidiary are also responsible for approving our asset/liability management policies, overseeing the formulation and implementation of strategies to improve balance sheet positioning and earnings, and reviewing our interest rate sensitivity position.

One of the tools that our management uses to measure short-term interest rate risk is a net interest income simulation model. This analysis calculates the difference between net interest income forecasted using base market rates and using a rising and a falling interest rate scenario. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to re-price immediately, and proportional to the change in market rates, depending on their contracted index. Some loans and investments include the opportunity of prepayment (embedded options), and accordingly the simulation model uses indexes to estimate these prepayments and reinvest their proceeds at current yields. Our non-term deposit products re-price more slowly, usually changing less than the change in market rates and at our discretion.

This analysis indicates the impact of changes in net interest income for the given set of rate changes and assumptions. It assumes the balance sheet remains static and that its structure does not change over the course of the year. It does not account for all factors that impact this analysis, including changes by management to mitigate the impact of interest rate changes or secondary impacts such as changes to our credit risk profile as interest rates change.

Furthermore, loan prepayment rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment rates that will differ from the market estimates incorporated in this analysis. Changes that vary significantly from the assumptions may have significant effects on our net interest income.

For the rising and falling interest rate scenarios, the base market interest rate forecast was increased and decreased over twelve months by 200 and 100 basis points, respectively. At December 31, 2020, our net interest margin exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us.

Table 31 presents our sensitivity to net interest income as of December 31, 2020.

Table 31: Sensitivity of Net Interest Income

Interest Rate Scenario	**Percentage Change from Base**
Up 200 basis points	14.92%
Up 100 basis points	7.71
Down 100 basis points	(3.11)
Down 200 basis points	(6.37)

Interest Rate Sensitivity. Our primary business is banking and the resulting earnings, primarily net interest income, are susceptible to changes in market interest rates. It is management's goal to maximize net interest income within acceptable levels of interest rate and liquidity risks.

A key element in the financial performance of financial institutions is the level and type of interest rate risk assumed. The single most significant measure of interest rate risk is the relationship of the repricing periods of earning assets and interest-bearing liabilities. The more closely the repricing periods are correlated, the less interest rate risk we assume. We use repricing gap and simulation modeling as the primary methods in analyzing and managing interest rate risk.

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. As of December 31, 2020, our gap position was asset sensitive with a one-year cumulative repricing gap as a percentage of total earning assets of 16.3%. During the COVID-19 pandemic, the Company has participated in the PPP loan program under the CARES Act. The Company had $691.7 million of PPP loans as of December 31, 2020. In addition, total deposits have increased by $1.45 billion, $900.0 million of which were demand and non-interest-bearing deposits, for the year ended December 31, 2020. This has left the Company with close to $1.00 billion at the Federal Reserve as of December 31, 2020. For the Company's gap analysis, the PPP loans fell into the 0-12 months and 1-2 year time periods due to maturities and prepayment factors applied to PPP loans. The outflow of PPP funds from the Bank has been slow and, in some cases, has been offset by inflows of other non-interest-bearing deposits. This, along with the rise in demand and non-interest-bearing deposits and the resulting increase in cash on hand, has caused an uneven shift in the sensitivity of the repricing gap between short-term assets and liabilities. Although PPP loans have maturities of two years, a large percentage of these loans are anticipated to receive SBA forgiveness and be repaid in advance of stated maturities. The Company feels that funding these loans was both beneficial and necessary for our customers in light of the current economic environment and believes the one-year repricing gap increase is temporary in nature. The Company believes the repricing gap would have been more in line with historical experiences had it not been for the funding of the PPP loans, and the excess liquidity that we have with the Federal Reserve.

During this period, the amount of change our asset base realizes in relation to the total change in market interest rates is higher than that of the liability base. As a result, our net interest income will have a negative effect in an environment of decreasing rates.

We have a portion of our securities portfolio invested in mortgage-backed securities. Mortgage-backed securities are included based on their expected prepayment or call date. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table 32 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of December 31, 2020.

Table 32: Interest Rate Sensitivity

	Interest Rate Sensitivity Period							
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	Total
	(Dollars in thousands)							
Earning assets								
Interest-bearing deposits due from banks	$ 1,021,615	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,021,615
Federal funds sold	—	—	—	—	—	—	—	—
Investment securities	355,544	87,034	111,933	188,047	313,327	602,070	815,826	2,473,781
Loans receivable	3,355,949	788,519	1,001,367	1,894,857	1,997,180	1,861,373	321,476	11,220,721
Total earning assets	4,733,108	875,553	1,113,300	2,082,904	2,310,507	2,463,443	1,137,302	14,716,117
Interest-bearing liabilities								
Savings and interest-bearing transaction accounts	$ 1,734,020	$ 620,763	$ 931,145	$ 1,862,290	$ 961,755	$ 790,628	$ 1,311,639	$ 8,212,240
Time deposits	196,660	163,337	251,560	410,796	172,219	51,931	294	1,246,797
Federal funds purchased	—	—	—	—	—	—	—	—
Securities sold under repurchase agreements	168,931	—	—	—	—	—	—	168,931
FHLB borrowed funds	—	—	—	—	—	—	400,000	400,000
Subordinated debentures	71,127	—	—	—	299,199	—	—	370,326
Total interest-bearing liabilities	2,170,738	784,100	1,182,705	2,273,086	1,433,173	842,559	1,711,933	10,398,294
Interest rate sensitivity gap	$ 2,562,370	$ 91,453	$ (69,405)	$ (190,182)	$ 877,334	$ 1,620,884	$ (574,631)	$ 4,317,823
Cumulative interest rate sensitivity gap	$ 2,562,370	$ 2,653,823	$ 2,584,418	$ 2,394,236	$ 3,271,570	$ 4,892,454	$ 4,317,823	
Cumulative rate sensitive assets to rate sensitive liabilities	218.0%	189.8%	162.5%	137.3%	141.7%	156.3%	141.5%	
Cumulative gap as a % of total earning assets	17.4%	18.0%	17.6%	16.3%	22.2%	33.2%	29.3%	

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control Over Financial Reporting

The management of Home BancShares, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020. In making this assessment, management used the criteria set forth in *Internal Control – Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2020 is effective based on the specified criteria.

BKD, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2020. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, is included herein.

Report of Independent Registered Public Accounting Firm

To the Stockholders, Board of Directors and Audit Committee
Home BancShares, Inc.
Conway, Arkansas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Home BancShares, Inc. (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 26, 2021, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Adoption of New Accounting Standard

As discussed in *Notes 1* and *5* to the consolidated financial statements, the Company has changed its method of accounting for the allowance for credit losses in 2020 due to the adoption of ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. As explained below, auditing the Company's allowance for loan credit losses and unfunded commitments was a critical audit matter.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex auditor judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which they relate.

Allowance for Credit Losses

Critical Audit Matter Description

As discussed in Notes *1* and *5*, the Company adopted Topic 326 effective January 1, 2020. The Company uses the discounted cash flow (DCF) method to estimate expected losses for all of the Company's loan pools that exhibit similar risk characteristics. For each of these loan pools, the Company generates cash flow projections at the instrument level adjusting payment expectations for estimated prepayment speed, curtailments, time to recovery, probability of default and loss given default. The Company uses regression analysis of historical internal and peer data to determine suitable loss drivers when modeling lifetime probability of default and loss given default. The Company's analysis also determines how expected probability of default and loss given default will react to forecasted levels of the loss drivers. Additional qualitative adjustments are applied for risk factors that are not considered within the modeling process but are relevant in assessing the expected credit losses within the loan pools. Loans that do not share risk characteristics are evaluated on an individual basis. For loans individually evaluated, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The Company applies expected funding percentages to the respective model loss rates to estimate the allowance related to unfunded commitments.

Auditing management's estimate of the allowances for loan credit losses (ACL) and unfunded commitments involved a high degree of subjectivity due to the complexities of the probability of default and loss given default models and the nature of the qualitative factor adjustments. Management's qualitative factor adjustments are highly judgmental and had a significant effect on the ACL.

How the Critical Audit Matter was Addressed in the Audit

Our audit procedures related to the ACL and allowance for unfunded commitments included the following procedures, among others:

- Obtained an understanding of the Company's process for establishing the ACL, including the implementation of models and assumptions and the qualitative factor adjustments of the ACL
- Obtained an understanding, evaluated the design and tested the operating effectiveness of controls, including information technology, over the reliability and accuracy of data used to calculate and estimate the various components of the ACL including:
    - Loan data completeness and accuracy
    - Grouping of loans by segment
    - Model inputs utilized
    - Approval of model assumptions selected
    - Establishment of qualitative factors
- Tested the mathematical accuracy of the calculation of the ACL
- Tested individual loan files to evaluate the reasonableness of loan credit risk ratings
- Tested the completeness and accuracy of inputs utilized in the calculation of the ACL
- Evaluated the reasonableness of selected loss drivers utilized and loss driver forecasts for each loan segment
- Tested the reasonableness of specific reserves on individually evaluated loans
- Tested estimated funding rate of unfunded loan commitments
- Evaluated the qualitative adjustments, including assessing the reasonableness and basis for adjustments

/s/ **BKD, LLP**

We have served as the Company's auditor since 2005.

Little Rock, Arkansas
February 26, 2021

Report of Independent Registered Public Accounting Firm

To the Stockholders, Board of Directors and Audit Committee
Home BancShares, Inc.
Conway, Arkansas

Opinion on the Internal Control Over Financial Reporting

We have audited Home BancShares, Inc.'s (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework* (2013 edition) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company and our report dated February 26, 2021, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definitions and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

/s/ **BKD, LLP**

Little Rock, Arkansas
February 26, 2021

Home BancShares, Inc.
Consolidated Balance Sheets

(In thousands, except share data)	**December 31, 2020**	**December 31, 2019**
Assets		
Cash and due from banks	$ 242,173	$ 168,914
Interest-bearing deposits with other banks	1,021,615	321,687
Cash and cash equivalents	1,263,788	490,601
Investment securities – available-for-sale	2,473,781	2,083,838
Loans receivable	11,220,721	10,869,710
Allowance for credit losses	(245,473)	(102,122)
Loans receivable, net	10,975,248	10,767,588
Bank premises and equipment, net	278,614	280,103
Foreclosed assets held for sale	4,420	9,143
Cash value of life insurance	103,519	102,562
Accrued interest receivable	60,528	45,086
Deferred tax asset, net	70,249	44,301
Goodwill	973,025	958,408
Core deposit and other intangibles	30,728	36,572
Other assets	164,904	213,845
Total assets	$ 16,398,804	$ 15,032,047
Liabilities and Stockholders' Equity		
Deposits:		
Demand and non-interest-bearing	$ 3,266,753	$ 2,367,091
Savings and interest-bearing transaction accounts	8,212,240	6,933,964
Time deposits	1,246,797	1,977,328
Total deposits	12,725,790	11,278,383
Federal funds purchased	—	5,000
Securities sold under agreements to repurchase	168,931	143,727
FHLB and other borrowed funds	400,000	621,439
Accrued interest payable and other liabilities	127,999	102,410
Subordinated debentures	370,326	369,557
Total liabilities	13,793,046	12,520,516
Stockholders' equity:		
Common stock, par value $0.01; shares authorized 300,000,000 in 2020 and 2019; shares issued and outstanding 165,095,252 in 2020 and 166,373,346 in 2019	1,651	1,664
Capital surplus	1,520,617	1,537,091
Retained earnings	1,039,370	956,555
Accumulated other comprehensive income	44,120	16,221
Total stockholders' equity	2,605,758	2,511,531
Total liabilities and stockholders' equity	$ 16,398,804	$ 15,032,047

See accompanying notes.

Home BancShares, Inc.
Consolidated Statements of Income

(In thousands, except per share data)	Year Ended December 31, 2020	2019	2018
Interest income:			
Loans	$ 625,338	$ 658,345	$ 630,596
Investment securities			
Taxable	32,596	41,406	36,833
Tax-exempt	16,158	13,015	13,257
Deposits – other banks	1,849	5,188	4,649
Federal funds sold	21	34	33
Total interest income	675,962	717,988	685,368
Interest expense:			
Interest on deposits	63,110	114,104	79,589
Federal funds purchased	13	54	1
FHLB and other borrowed funds	9,506	17,209	22,354
Securities sold under agreements to repurchase	1,167	2,544	1,822
Subordinated debentures	19,611	20,860	20,589
Total interest expense	93,407	154,771	124,355
Net interest income	582,555	563,217	561,013
Provision for credit loss - loans	102,113	1,325	4,322
Provision for credit loss - acquired loans	9,309	—	—
Provision for credit loss - investment securities	842	—	—
Total credit loss expense	112,264	1,325	4,322
Net interest income after provision for credit losses	470,291	561,892	556,691
Non-interest income:			
Service charges on deposit accounts	21,381	25,930	26,851
Other service charges and fees	30,686	34,086	36,591
Trust fees	1,633	1,566	1,552
Mortgage lending income	29,065	14,303	12,379
Insurance commissions	1,848	2,278	2,110
Increase in cash value of life insurance	2,200	2,752	2,856
Dividends from FHLB, FRB, First National Bankers' Bank & other	12,472	7,707	5,757
Gain on sale of SBA loans	645	1,573	566
Gain (loss) on sale of branches, equipment and other assets, net	326	(3)	(120)
Gain on OREO, net	1,132	757	2,401
Loss on securities, net	—	(2)	—
Fair value adjustment for marketable securities	(1,978)	—	499
Other income	12,376	8,569	11,390
Total non-interest income	111,786	99,516	102,832
Non-interest expense:			
Salaries and employee benefits	163,950	154,177	143,545
Occupancy and equipment	38,412	35,452	33,960
Data processing expense	19,032	16,161	14,428
Other operating expenses	82,980	69,997	72,070
Total non-interest expense	304,374	275,787	264,003
Income before income taxes	277,703	385,621	395,520
Income tax expense	63,255	96,082	95,117
Net income	$ 214,448	$ 289,539	$ 300,403
Basic earnings per common share	$ 1.30	$ 1.73	$ 1.73
Diluted earnings per common share	$ 1.30	$ 1.73	$ 1.73

See accompanying notes.

Home BancShares, Inc.
Consolidated Statements of Comprehensive Income

(In thousands)	**Year Ended December 31, 2020**	**2019**	**2018**
Net income available to all stockholders	$ 214,448	$ 289,539	$ 300,403
Net unrealized gain (loss) on available-for-sale securities	37,771	41,262	(12,983)
Other comprehensive income (loss), before tax effect	37,771	41,262	(12,983)
Tax effect on other comprehensive (loss) income	(9,872)	(10,767)	3,579
Other comprehensive income (loss)	27,899	30,495	(9,404)
Comprehensive income	$ 242,347	$ 320,034	$ 290,999

See accompanying notes.

Home BancShares, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2020, 2019 and 2018

(In thousands, except share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at January 1, 2018	$ 1,736	$ 1,675,318	$ 530,658	$ (3,421)	$ 2,204,291
Comprehensive income:					
Net income	—	—	300,403	—	300,403
Other comprehensive loss	—	—	—	(9,404)	(9,404)
Net issuance of 201,371 shares of common stock from exercise of stock options	2	1,452	—	—	1,454
Issuance of 1,250,000 shares of common stock from acquisition of Shore Premier Finance	13	28,188	—	—	28,201
Impact of adoption of new accounting standards(1)	—	—	990	(990)	—
Repurchase of 5,307,689 shares of common stock	(53)	(104,223)	—	—	(104,276)
Share-based compensation net issuance of 961,125 shares of restricted common stock	9	9,075	—	—	9,084
Cash dividends – Common Stock, $0.46 per share	—	—	(79,867)	—	(79,867)
Balances at December 31, 2018	1,707	1,609,810	752,184	(13,815)	2,349,886
Comprehensive income:					
Net income	—	—	289,539	—	289,539
Other comprehensive income	—	—	—	30,495	30,495
Net issuance of 93,372 shares of common stock from exercise of stock options	1	1,406	—	—	1,407
Impact of adoption of new accounting standards(2)	—	—	459	(459)	—
Repurchase of 4,542,222 shares of common stock	(45)	(84,843)	—	—	(84,888)
Share-based compensation net issuance of 102,124 shares of restricted common stock	1	10,718	—	—	10,719
Cash dividends – Common Stock, $0.51 per share	—	—	(85,627)	—	(85,627)
Balances at December 31, 2019	1,664	1,537,091	956,555	16,221	2,511,531
Cumulative change in accounting principle (adoption of ASC 326)	—	—	(43,956)	—	(43,956)
Balance at January 1, 2020 (as adjusted for change in accounting principle)	1,664	1,537,091	912,599	16,221	2,467,575
Comprehensive income:					
Net income	—	—	214,448	—	214,448
Other comprehensive income	—	—	—	27,899	27,899
Net issuance of 67,577 shares of common stock from exercise of stock options	—	595	—	—	595
Repurchase of 1,533,560 shares of common stock	(15)	(25,675)	—	—	(25,690)
Share-based compensation net issuance of 187,889 shares of restricted common stock	2	8,606	—	—	8,608
Cash dividends – Common Stock, $0.53 per share	—	—	(87,677)	—	(87,677)
Balances at December 31, 2020	$ 1,651	$ 1,520,617	$ 1,039,370	$ 44,120	$ 2,605,758

(1) Represents the impact of adopting Accounting Standard Update ("ASU") 2016-01. See Note 1 to the consolidated financial statements for more information.
(2)

See accompanying notes.

Represents the impact of adopting Accounting Standard Update ("ASU") 2018-02. See Note 1 to the consolidated financial statements for more information.

Home BancShares, Inc.
Consolidated Statements of Cash Flows

(In thousands)	Year Ended December 31, 2020	2019	2018
Operating Activities			
Net income	$ 214,448	$ 289,539	$ 300,403
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation & amortization	20,082	19,427	19,205
Decrease (increase) in value of equity securities	1,978	—	(499)
Amortization of securities, net	20,607	15,943	14,205
Accretion of purchased loans	(27,376)	(35,890)	(41,455)
Share-based compensation	8,608	10,719	9,084
Gain on assets	(2,103)	(1,942)	(3,302)
Provision for credit losses	112,264	1,325	4,322
Deferred income tax effect	(19,751)	28,974	3,289
Increase in cash value of life insurance	(2,200)	(2,752)	(2,856)
Originations of mortgage loans held for sale	(863,383)	(469,451)	(347,410)
Proceeds from sales of mortgage loans held for sale	831,604	424,540	327,488
Changes in assets and liabilities:			
Accrued interest receivable	(15,212)	3,859	(2,413)
Other assets	(13,427)	(27,087)	(237)
Accrued interest payable and other liabilities	25,589	(9,789)	24,078
Net cash provided by operating activities	291,728	247,415	303,902
Investing Activities			
Net increase in federal funds sold	—	325	23,784
Net (increase) decrease in loans, excluding loans acquired	92,650	245,366	(329,001)
Purchases of investment securities – available-for-sale	(1,147,897)	(609,510)	(500,713)
Proceeds from maturities of investment securities – available-for-sale	774,276	528,159	348,032
Proceeds from sale of investment securities – available-for-sale	—	1,472	—
(Purchases) sales of equity securities	(15,015)	—	3,768
Proceeds from maturities of investment securities – held-to-maturity	—	—	31,360
Redemptions (purchases) of other investments	13,355	34,709	(1,683)
Proceeds from foreclosed assets held for sale	8,494	14,190	19,249
Proceeds from sale of SBA loans	7,696	21,843	9,443
Purchases of premises and equipment, net	(11,547)	(14,898)	(7,950)
Return of investment on cash value of life insurance	47,258	—	1,544
Net cash proceeds paid – market acquisitions	(421,211)	—	(377,411)
Net cash (used in) provided by investing activities	(651,941)	221,656	(779,578)
Financing Activities			
Net increase in deposits, excluding deposits acquired	1,447,407	378,605	511,276
Net increase (decrease) in securities sold under agreements to repurchase	25,204	48	(4,110)
Net (decrease) increase in federal funds purchased	(5,000)	5,000	—
Net (decrease) increase in FHLB and other borrowed funds	(221,439)	(850,954)	173,205
Proceeds from exercise of stock options	595	1,407	1,454
Repurchase of common stock	(25,690)	(84,888)	(104,276)
Dividends paid on common stock	(87,677)	(85,627)	(79,867)
Net cash provided by (used in) financing activities	1,133,400	(636,409)	497,682
Net change in cash and cash equivalents	773,187	(167,338)	22,006
Cash and cash equivalents – beginning of year	490,601	657,939	635,933
Cash and cash equivalents – end of year	$ 1,263,788	$ 490,601	$ 657,939

See accompanying notes.

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Home BancShares, Inc. (the "Company" or "HBI") is a bank holding company headquartered in Conway, Arkansas. The Company is primarily engaged in providing a full range of banking services to individual and corporate customers through its wholly-owned bank subsidiary – Centennial Bank (sometimes referred to as "Centennial" or the "Bank"). The Bank has branch locations in Arkansas, Florida, South Alabama and New York City. The Company is subject to competition from other financial institutions. The Company also is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

A summary of the significant accounting policies of the Company follows:

Operating Segments

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Bank is the only significant subsidiary upon which management makes decisions regarding how to allocate resources and assess performance. Each of the branches of the Bank provide a group of similar banking services, including such products and services as commercial, real estate and consumer loans, time deposits, checking and savings accounts. The individual bank branches have similar operating and economic characteristics. While the chief decision maker monitors the revenue streams of the various products, services and branch locations, operations are managed, and financial performance is evaluated on a Company-wide basis. Accordingly, all of the banking services and branch locations are considered by management to be aggregated into one reportable operating segment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses, the valuation of investment securities, the valuation of foreclosed assets and the valuations of assets acquired and liabilities assumed in business combinations. In connection with the determination of the allowance for credit losses and the valuation of foreclosed assets, management obtains independent appraisals for significant properties.

Principles of Consolidation

The consolidated financial statements include the accounts of HBI and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Various items within the accompanying consolidated financial statements for previous years have been reclassified to provide more comparative information. These reclassifications had no effect on net earnings or stockholders' equity.

New Accounting Pronouncements

The Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASC 326"), effective January 1, 2020. The guidance replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credits, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. ASC 326 requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses as well as the credit quality and underwriting standards of a company's portfolio. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for loans and off-balance-sheet ("OBS") credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a one-time cumulative-effect adjustment to the allowance for credit losses of $44.0 million which was recognized through a $32.5 million adjustment to retained earnings, net of tax. This adjustment brought the beginning balance of the allowance for credit losses to $146.1 million as of January 1, 2020. In addition, the Company recorded a $15.5 million reserve on unfunded commitments which was recognized through an $11.5 million adjustment to retained earnings, net of tax.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration ("PCD") that were previously classified as purchased credit impaired ("PCI") and accounted for under ASC 310-30. In 2019, the Company reevaluated its loan pools of purchased loans with deteriorated credit quality. These loans pools related specifically to acquired loans from the Heritage, Liberty, Landmark, Bay Cities, Bank of Commerce, Premier Bank, Stonegate and Shore Premier Finance acquisitions. At acquisition, a portion of these loans was recorded as purchased credit impaired loans on a pool by pool basis. Through the reevaluation of these loan pools, management determined that estimated losses for purchase credit impaired loans should be processed against the credit mark of the applicable pools. The remaining non-accretable mark was then moved to accretable mark to be recognized over the remaining weighted average life of the loan pools. The projected losses for these loans were less than the total credit mark. As such, the remaining $107.6 million of loans in these pools along with the $29.3 million in accretable yield was deemed to be immaterial and was reclassified out of the purchased credit impaired loans category. As of December 31, 2019, the Company no longer held any purchased loans with deteriorated credit quality. Therefore, the Company did not have any PCI loans upon adoption of ASC 326 as of January 1, 2020.

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through the provision for credit loss.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2020. As of December 31, 2019, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not material. However, the Company evaluated the investment portfolio during 2020 and determined that an $842,000 provision for credit losses was necessary as of December 31, 2020 as a result of the Coronavirus ("COVID-19") pandemic. See Note 3 for further discussion.

The following table illustrates the impact of the adoption of ASC 326 on the Company's consolidated balance sheet.

	January 1, 2020		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
	(In thousands)		
Assets:			
Allowance for credit losses on loans	$ 146,110	$ 102,122	$ 43,988
Liabilities:			
Allowance for credit losses on OBS credit exposures (included in other liabilities)	15,521	—	15,521

The Company adopted ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* effective January 1, 2019. In accordance with the standard, the Company made an election to reclassify the income tax effects of the Tax Cuts and Jobs Act ("TCJA") from accumulated other comprehensive income ("AOCI") to retained earnings. The stranded tax effects were a result of the decrease in the corporate tax rate from 35% to 21% on deferred tax liabilities and assets for available-for-sale and equity securities which had been recognized as an adjustment to income tax expense and included in income from continuing operations, with the tax effects initially recognized directly in other comprehensive income which caused the stranded tax effects to remain in AOCI. The Company adopted the guidance effective January 1, 2019, and its adoption resulted in a $459,000 reclassification between retained earnings and accumulated other comprehensive income. The Company's policy for future tax rate changes is to release the future disproportionate income tax effects from AOCI using the aggregate portfolio approach.

The Company adopted ASU 2016-02, *Leases (Topic 842)* effective January 1, 2019 and recorded a ROU asset of $47.1 million and lease liability of $49.0 million. No cumulative adjustment to the opening balance of retained earnings was considered necessary due to the nature of the Company's leases. As part of the standard adoption, the Company elected the package of practical expedients whereby we did not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. In accordance with ASU 2018-11 *Leases (Topic 842) Targeted Improvements*, the Company also elected the practical expedient whereby we elected to not separate nonlease components from the associated lease component of our operating leases. As a result, we account for these components as a single component under Topic 842 since (i) the timing and pattern of the transfer of the nonlease components and the associated lease component are the same and (ii) the lease component, if accounted for separately, would be classified as an operating lease. The Company has also elected to not apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by related accounting guidance).

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash held as demand deposits at various banks and the Federal Reserve Bank ("FRB") and interest-bearing deposits with other banks. For many years, reserve requirements played a central role in the implementation of monetary policy by creating a stable demand for reserves. In January 2019, the Federal Open Market Committee announced its intention to implement monetary policy in an ample reserves regime. Reserve requirements do not play a significant role in this operating framework. In light of the shift to an ample reserves regime, the FRB reduced the reserve requirement ratios to zero percent effective on March 26, 2020. As a result, the Bank is no longer required to maintain required reserve balance with either the FRB or in the form of cash on hand.

Investment Securities

Interest on investment securities is recorded as income as earned. Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains or losses on the sale of securities are determined using the specific identification method.

Management determines the classification of securities as available-for-sale, held-to-maturity, or trading at the time of purchase based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The Company has no held-to-maturity or trading securities.

Debt securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders' equity and other comprehensive income (loss), net of taxes. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale. The Company evaluates all securities quarterly to determine if any securities in a loss position require a provision for credit losses in accordance with ASC 326, *Measurement of Credit Losses on Financial Instruments*. The Company first assesses whether it intends to sell or is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities that do not meet these criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, and changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Prior to the adoption of ASU 2016-13, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that were deemed to be other than temporary were reflected in earnings as realized losses. In estimating other-than-temporary impairment losses prior to January 1, 2020, management considered, among other things, (i) the length of time and the extent to which the fair value had been less than cost, (ii) the financial condition and near-term prospects of the issuer and (iii) the intent and our ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Effective January 1, 2019, as permitted by ASU 2017-12, *Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities*, the Company reclassified the prepayable held-to-maturity ("HTM") investment securities, with a fair value of $193.6 million and $834,000 in net unrealized gains as of December 31, 2018, to available-for-sale investment securities. Securities held-to-maturity, which include any security for which we have the positive intent and ability to hold until maturity, are reported at historical cost adjusted for amortization of premiums and accretion of discounts. Starting January 1, 2018, premiums are now amortized to call date under ASU 2017-08 and discounts are accreted to interest income using the constant yield method over the period to maturity.

Loans Receivable and Allowance for Credit Losses

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs, deferred fees or costs on originated loans. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding. Loan origination fees and direct origination costs are capitalized and recognized as adjustments to yield on the related loans.

The allowance for credit losses on loans receivable is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in the national unemployment rate, commercial real estate price index, housing price index and national retail sales index.

The allowance for credit losses is measured based on call report segment as these types of loan exhibit similar risk characteristics. The identified loan segments are as follows:

- 1-4 family construction
- All other construction
- 1-4 family revolving home equity lines of credit (“HELOC”) & junior liens
- 1-4 family senior liens
- Multifamily
- Owner occupied commercial real estate
- Non-owner occupied commercial real estate
- Commercial & industrial, agricultural, non-depository financial institutions, purchase/carry securities, other
- Consumer auto
- Other consumer
- Other consumer - SPF

The allowance for credit losses for each segment is measured through the use of the discounted cash flow method. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies:

- Management has a reasonable expectation at the reporting date that troubled debt restructuring will be executed with an individual borrower.
- The extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Loans considered impaired, according to ASC 326, are loans for which, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. The aggregate amount of impairment of loans is utilized in evaluating the adequacy of the allowance for credit losses and amount of provisions thereto. Losses on impaired loans are charged against the allowance for credit losses when in the process of collection, it appears likely that such losses will be realized. The accrual of interest on impaired loans is discontinued when, in management’s opinion the collection of interest is doubtful or generally when loans are 90 days or more past due. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans are placed on non-accrual status when management believes that the borrower’s financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful, or generally when loans are 90 days or more past due. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely. Accrued interest related to non-accrual loans is generally charged against the allowance for credit losses when accrued in prior years and reversed from interest income if accrued in the current year. Interest income on non-accrual loans may be recognized to the extent cash payments are received, although the majority of payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status when principal and interest payments are less than 90 days past due, the customer has made required payments for at least six months, and we reasonably expect to collect all principal and interest.

Prior to the adoption of ASU 2016-13, the allowance for credit losses on loans was a contra-asset valuation account established through a provision for loan losses charged to expense, which represented management’s best estimate of inherent losses that had been incurred within the existing portfolio of loans. The allowance for credit losses on loans included allowance allocations calculated in accordance with ASC Topic 310, “Receivables” and allowance allocations calculated in accordance with ASC Topic 450, “Contingencies.”

Acquisition Accounting and Acquired Loans

The Company accounts for its acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. In accordance with ASC 326, the Company records both a discount and an allowance for credit losses on acquired loans. All purchased loans are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, *Fair Value Measurements*. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. Purchase credit deteriorated ("PCD") loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through the provision for credit loss.

For further discussion of the Company's acquisitions, see Note 2 to the Notes to Consolidated Financial Statements.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

With the adoption of ASC 326, the Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted as unfunded commitments expense within non-interest expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Foreclosed Assets Held for Sale

Real estate and personal properties acquired through or in lieu of loan foreclosure are to be sold and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis.

Valuations are periodically performed by management, and the real estate and personal properties are carried at fair value less costs to sell. Gains and losses from the sale of other real estate and personal properties are recorded in non-interest income, and expenses used to maintain the properties are included in non-interest expense.

Bank Premises and Equipment

Bank premises and equipment are carried at cost or fair market value at the date of acquisition less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are used for tax purposes. Leasehold improvements are capitalized and amortized using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements whichever is shorter. The assets' estimated useful lives for book purposes are as follows:

Bank premises	15-40 years
Furniture, fixtures, and equipment	3-15 years

Cash value of life insurance

The Company has purchased life insurance policies on certain key employees. Life insurance owned by the Company is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

During 2019, the Company made a strategic decision to surrender $47.5 million of its underperforming separate account bank owned life insurance ("BOLI"). When a BOLI contract is surrendered the gains within the policy become taxable as well as a 10% IRS penalty on the gain. As a result of this BOLI decision, the Company recorded a $3.7 million tax expense related to this transaction in 2019. As a result of this decision, the income earned on the increase in the cash value of life insurance will be lower in future periods.

Intangible Assets

Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation specialists. The core deposit intangibles are being amortized over 48 to 121 months on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. Goodwill is tested annually for impairment during the fourth quarter. Due to market conditions in 2020, the Company performed a qualitative assessment each quarter to determine whether it was more likely than not that fair value was less than the Company's carrying value. Based on the Company's assessments, it was determined that the Company's fair value exceeded its carrying value and no impairment was recorded. The Company also performed its annual impairment test of goodwill and core deposit intangibles during 2020, 2019 and 2018, as required by FASB ASC 350, *Intangibles - Goodwill and Other*. The 2020, 2019 and 2018 tests indicated no impairment of the Company's goodwill or core deposit intangibles.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. At the point funds deposited by customers become investable, those funds are used to purchase securities owned by the Company and held in its general account with the designation of Customers' Securities. A third party maintains control over the securities underlying overnight repurchase agreements. The securities involved in these transactions are generally U.S. Treasury or Federal Agency issues. Securities sold under agreements to repurchase generally mature on the banking day following that on which the investment was initially purchased and are treated as collateralized financing transactions which are recorded at the amounts at which the securities were sold plus accrued interest. Interest rates and maturity dates of the securities involved vary and are not intended to be matched with funds from customers.

Derivative Financial Instruments

The Company may enter into derivative contracts for the purposes of managing exposure to interest rate risk. The Company records all derivatives on the consolidated balance sheet at fair value. Historically the Company's policy has been not to invest in derivative type investments.

During 2017, the Company acquired standalone derivative financial instruments from Stonegate Bank. These derivative financial instruments consist of interest rate swaps and are recognized as assets and liabilities in the consolidated statements of financial condition at fair value. The Bank's derivative instruments have not been designated as hedging instruments. These undesignated derivative instruments are recognized on the consolidated balance sheet at fair value, with changes in fair value recorded in other noninterest income. In addition, as of December 31, 2020 and December 31, 2019, the Company had derivative contracts outstanding associated with the mortgage loans held for sale portfolio. As of December 31, 2020 and 2019, these derivative instruments are not considered to be material to the Company's financial position and results of operations.

Stock Options

The Company accounts for stock options in accordance with FASB ASC 718, *Compensation - Stock Compensation,* and FASB ASC 505-50, *Equity-Based Payments to Non-Employees*, which establishes standards for the accounting for transactions in which an entity (i) exchanges its equity instruments for goods and services, or (ii) incurs liabilities in exchange for goods and services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of the equity instruments. FASB ASC 718 requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which is generally the date of the grant.

For additional information on the stock-based compensation plan, see Note 13.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company and its subsidiaries file consolidated tax returns. Its subsidiary provides for income taxes on a separate return basis, and remits to the Company amounts determined to be currently payable.

Revenue Recognition.

Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC Topic 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied. The majority of our revenue-generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments, such as our loans, letters of credit, investment securities and mortgage lending income, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Descriptions of our significant revenue-generating activities that are within the scope of ASC Topic 606, which are presented in our income statements as components of non-interest income are as follows:

- Service charges on deposit accounts – These represent general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

- Other service charges and fees – These represent credit card interchange fees and Centennial Commercial Finance Group ("Centennial CFG") loan fees. The interchange fees are recorded in the period the performance obligation is satisfied which is generally the cash basis based on agreed upon contracts. The Centennial CFG loan fees are based on loan or other negotiated agreements with customers and are accounted for under ASC Topic 310.

Earnings per Share

Basic earnings per share is computed based on the weighted-average number of shares outstanding during each year. Diluted earnings per share is computed using the weighted-average shares and all potential dilutive shares outstanding during the period. The following table sets forth the computation of basic and diluted earnings per share (EPS) for the years ended December 31:

	2020	2019	2018
	(In thousands, except per share data)		
Net income	$ 214,448	$ 289,539	$ 300,403
Average common shares outstanding	165,373	167,804	173,657
Effect of common stock options	—	—	467
Diluted common shares outstanding	165,373	167,804	174,124
Basic earnings per common share	$ 1.30	$ 1.73	$ 1.73
Diluted earnings per common share	$ 1.30	$ 1.73	$ 1.73

As of December 31, 2020 and 2019, options to purchase 3.3 million and 3.4 million shares of common stock, respectively, with a weighted average exercise price of $19.77 and $19.60, respectively, were excluded from the computation of diluted earnings per share as the majority of the options had an exercise price which was greater than the average market price of the common stock.

2. Business Combinations

Acquisition of LH-Finance

On February 29, 2020, the Company completed the acquisition of LH-Finance, the marine lending division of People's United Bank, N.A. The Company paid a purchase price of approximately $421.2 million in cash. LH-Finance provides direct consumer financing for United States Coast Guard ("USCG") registered high-end sail and power boats. Additionally, LH-Finance provides inventory floor plan lines of credit to marine dealers, primarily those selling USCG documented vessels.

Including the purchase accounting adjustments, as of the acquisition date, LH-Finance had approximately $409.1 million in total assets, including $407.4 million in total loans, which resulted in goodwill of $14.6 million being recorded.

The acquired portfolio of loans is now housed in the Shore Premier Finance ("SPF") division. The SPF division of Centennial is responsible for servicing the acquired loan portfolio and originating new loan production. In connection with this acquisition, Centennial opened a new loan production office in Baltimore, Maryland.

The Company has determined that the acquisition of the net assets of LH-Finance constitutes a business combination as defined by the ASC Topic 805. Accordingly, the assets acquired are presented at their fair values as required. Fair values were determined based on the requirements of ASC Topic 820. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change.

Acquisition of Shore Premier Finance

On June 30, 2018, the Company, completed the acquisition of Shore Premier Finance, a division of Union Bank & Trust of Richmond, Virginia, the bank subsidiary of Union Bankshares Corporation. The Company paid a purchase price of approximately $377.4 million in cash, subject to certain post-closing adjustments, and 1,250,000 shares of HBI common stock valued at approximately $28.2 million at the time of closing. SPF provides direct consumer financing for USCG registered high-end sail and power boats. Additionally, SPF provides inventory floor plan lines of credit to marine dealers, primarily those selling USCG documented vessels.

Including the purchase accounting adjustments, as of acquisition date, SPF had approximately $377.0 million in total assets, including $376.2 million in total loans, which resulted in goodwill of $30.5 million being recorded.

This portfolio of loans is now housed in a division of Centennial known as Shore Premier Finance. The SPF division of Centennial is responsible for servicing the acquired loan portfolio and originating new loan production. In connection with this acquisition and the creation of the SPF division of Centennial, Centennial has opened a new loan production office in Chesapeake, Virginia. Through this loan production office, the SPF division of Centennial will continue its vision to build out a lending platform focusing on commercial and consumer marine loans.

The Company has determined that the acquisition of the net assets of SPF constitutes a business combination as defined by the ASC Topic 805. Accordingly, the assets acquired are presented at their fair values as required. Fair values were determined based on the requirements of ASC Topic 820. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change.

3. Investment Securities

Effective January 1, 2019, as permitted by ASU 2017-12, *Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities*, the Company reclassified the prepayable held-to-maturity ("HTM") investment securities, with a fair value of $193.6 million and $834,000 in net unrealized gains as of December 31, 2018, to available-for-sale ("AFS") investment securities.

The amortized cost and estimated fair value of investment securities that are classified as available-for-sale are as follows:

	December 31, 2020			
	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 325,860	$ 2,338	$ (1,207)	$ 326,991
Residential mortgage-backed securities	703,138	10,607	(688)	713,057
Commercial mortgage-backed securities	446,964	18,048	(126)	464,886
State and political subdivisions	898,174	31,173	(1,454)	927,893
Other securities	40,755	434	(235)	40,954
Total	$ 2,414,891	$ 62,600	$ (3,710)	$ 2,473,781

	December 31, 2019			
	Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In thousands)			
U.S. government-sponsored enterprises	$ 398,870	$ 1,001	$ (2,321)	$ 397,550
Residential mortgage-backed securities	689,955	4,735	(1,241)	693,449
Commercial mortgage-backed securities	514,287	6,647	(642)	520,292
State and political subdivisions	425,989	13,824	(257)	439,556
Other securities	32,748	409	(166)	32,991
Total	$ 2,061,849	$ 26,616	$ (4,627)	$ 2,083,838

Assets, principally investment securities, having a fair value of approximately $1.08 billion and $865.4 million at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Also, investment securities pledged as collateral for repurchase agreements totaled approximately $168.9 million and $143.7 million at December 31, 2020 and 2019.

The amortized cost and estimated fair value of securities classified as available-for-sale at December 31, 2020, by contractual maturity, are shown below. Expected maturities could differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 9,239	$ 9,297
Due after one year through five years	51,106	52,038
Due after five years through ten years	221,008	223,831
Due after ten years	981,436	1,008,672
Mortgage - backed securities: Residential	703,138	713,057
Mortgage - backed securities: Commercial	446,964	464,886
Other	2,000	2,000
Total	$ 2,414,891	$ 2,473,781

During the year ended December 31, 2020, no available-for-sale securities were sold.

During the year ended December 31, 2019, approximately $1.5 million available-for-sale securities were sold. The gross realized loss on the sale for the year ended December 31, 2019 totaled approximately $2,000. The income tax expense/benefit to net security gains and losses was 25.819% of the gross amounts.

During the year ended December 31, 2018, no available-for-sale securities were sold. However, approximately $3.8 million in equity securities carried at fair value were sold. There were no realized gains and losses on the sales for the year ended December 31, 2018.

During 2018, no held-to-maturity securities were sold.

The following shows gross unrealized losses and estimated fair value of investment securities classified as available-for-sale, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position as of December 31, 2020 and 2019:

	December 31, 2020					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 54,611	$ (383)	$ 95,249	$ (824)	$ 149,860	$ (1,207)
Residential mortgage-backed securities	143,458	(643)	4,900	(45)	148,358	(688)
Commercial mortgage-backed securities	26,886	(126)	—	—	26,886	(126)
State and political subdivisions	78,349	(1,454)	—	—	78,349	(1,454)
Other securities	5,434	(100)	8,748	(135)	14,182	(235)
Total	$ 308,738	$ (2,706)	$ 108,897	$ (1,004)	$ 417,635	$ (3,710)

	December 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government-sponsored enterprises	$ 129,951	$ (553)	$ 143,287	$ (1,768)	$ 273,238	$ (2,321)
Residential mortgage-backed securities	141,877	(640)	90,058	(601)	231,935	(1,241)
Commercial mortgage-backed securities	78,750	(330)	40,894	(312)	119,644	(642)
State and political subdivisions	27,376	(245)	4,206	(12)	31,582	(257)
Other securities	947	(2)	9,539	(164)	10,486	(166)
Total	$ 378,901	$ (1,770)	$ 287,984	$ (2,857)	$ 666,885	$ (4,627)

Beginning January 1, 2020, the Company evaluates all securities quarterly to determine if any debt securities in a loss position require a provision for credit losses in accordance with ASC 326, *Measurement of Credit Losses on Financial Instruments*. The Company first assesses whether it intends to sell or is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities that do not meet these criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, and changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to sell is met. For the three months ended March 31, 2020, the Company determined a provision for credit losses of $842,000 was necessary for the investment portfolio as a result of economic uncertainties related to COVID-19. For the remainder of the year ended December 31, 2020, the Company determined that no additional provision for credit losses was necessary for the portfolio.

	Investment Portfolio
Allowance for credit losses:	
Beginning balance	$ —
Provision for credit loss - investment securities	842
Balance, December 31, 2020	$ 842

For the year ended December 31, 2020, the Company had approximately $1.0 million in unrealized losses, which were in continuous loss positions for more than twelve months the Company's assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer's financial condition, or downgrades by rating agencies. In addition, approximately 60.4% of the Company's investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

For the year ended December 31, 2019, the Company had approximately $2.9 million in unrealized losses, which were in continuous loss positions for more than twelve months. Excluding impairment write downs taken in prior periods, the Company's assessments indicated that the cause of the market depreciation was primarily the change in interest rates and not the issuer's financial condition, or downgrades by rating agencies. In addition, approximately 76.6% of the Company's investment portfolio matures in five years or less. As a result, the Company has the ability and intent to hold such securities until maturity.

As of December 31, 2020, the Company's securities portfolio consisted of 1,394 investment securities, 209 of which were in an unrealized loss position. As noted in the table above, the total amount of the unrealized loss was $3.7 million. The U.S government-sponsored enterprises portfolio contained unrealized losses of $1.2 million on 58 securities. The residential mortgage-backed securities portfolio contained $688,000 of unrealized losses on 104 securities, and the commercial mortgage-backed securities portfolio contained $126,000 of unrealized losses on 10 securities. The state and political subdivisions portfolio contained $1.5 million of unrealized losses on 31 securities. In addition, the other securities portfolio contained $235,000 of unrealized losses on 6 securities. The unrealized losses on the Company's investments were a result of interest rate changes. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value was attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company has determined that an additional provision for credit losses is not necessary as of December 31, 2020.

Income earned on securities for the years ended is as follows:

	December 31,		
	2020	2019	2018
	(In thousands)		
Taxable:			
Available-for-sale	$ 32,596	$ 41,406	$ 35,026
Held-to-maturity	—	—	1,807
Tax-exempt:			
Available-for-sale	16,158	13,015	8,226
Held-to-maturity	—	—	5,031
Total	$ 48,754	$ 54,421	$ 50,090

4. Loans Receivable

The various categories of loans receivable are summarized as follows:

	December 31,	
	2020	2019
	(In thousands)	
Real estate:		
Commercial real estate loans		
Non-farm/non-residential	$ 4,429,060	$ 4,412,769
Construction/land development	1,562,298	1,776,689
Agricultural	114,431	88,400
Residential real estate loans		
Residential 1-4 family	1,536,257	1,819,221
Multifamily residential	536,538	488,278
Total real estate	8,178,584	8,585,357
Consumer	864,690	511,909
Commercial and industrial	1,896,442	1,528,003
Agricultural	66,869	63,644
Other	214,136	180,797
Total Loans receivable	$ 11,220,721	$ 10,869,710
Allowance for credit losses	$ (245,473)	$ (102,122)
Loans receivable, net	$ 10,975,248	$ 10,767,588

During the year ended December 31, 2020, the Company sold $7.0 million of the guaranteed portion of certain SBA loans, which resulted in a gain of $645,000. During the year ended December 31, 2019, the Company sold $20.2 million of the guaranteed portion of certain SBA loans, which resulted in a gain of $1.6 million. During the year ended December 31, 2018, the Company sold $8.9 million of the guaranteed portion of certain SBA loans, which resulted in a gain of $566,000.

Mortgage loans held for sale of approximately $114.8 million and $83.1 million at December 31, 2020 and 2019, respectively, are included in residential 1-4 family loans. Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid. The Company obtains forward commitments to sell mortgage loans to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. The forward commitments acquired by the Company for mortgage loans in process of origination are considered mandatory forward commitments. Because these commitments are structured on a mandatory basis, the Company is required to substitute another loan or to buy back the commitment if the original loan does not fund. These commitments are derivative instruments and their fair values at December 31, 2020 and 2019 were not material.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration ("PCD") that were previously classified as purchased credit impaired ("PCI") and accounted for under ASC 310-30. In 2019, the Company reevaluated its loan pools of purchased loans with deteriorated credit quality. These loans pools related specifically to acquired loans from the Heritage, Liberty, Landmark, Bay Cities, Bank of Commerce, Premier Bank, Stonegate and Shore Premier Finance acquisitions. At acquisition, a portion of these loans was recorded as purchased credit impaired loans on a pool by pool basis. Through the reevaluation of these loan pools, management determined that estimated losses for purchase credit impaired loans should be processed against the credit mark of the applicable pools. The remaining non-accretable mark was then moved to accretable mark to be recognized over the remaining weighted average life of the loan pools. The projected losses for these loans were less than the total credit mark. As such, the remaining $107.6 million of loans in these pools along with the $29.3 million in accretable yield was deemed to be immaterial and was reclassified out of the purchased credit impaired loans category. As of December 31, 2019, the Company no longer held any purchased loans with deteriorated credit quality. Therefore, the Company did not have any PCI loans upon adoption on of ASC 326 as of January 1, 2020.

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through the provision for credit losses. The Company currently holds approximately $760,000 in PCD loans, as of December 31, 2020, resulting from the acquisition of LH-Finance in 2020.

5. Allowance for Credit Losses, Credit Quality and Other

The Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective January 1, 2020. The guidance replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance, including loan commitments, standby letters of credits, financial guarantees, and other similar instruments. The Company adopted ASC 326 using the modified retrospective method for loans and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a one-time cumulative-effect adjustment to the allowance for credit losses of $44.0 million which was recognized through a $32.5 million adjustment to retained earnings, net of tax. This adjustment brought the beginning balance of the allowance for credit losses to $146.1 million as of January 1, 2020. In addition, the Company recorded a $15.5 million reserve on unfunded commitments as of January 1, 2020, which was recognized through an $11.5 million adjustment to retained earnings, net of tax.

The Company uses the discounted cash flow ("DCF") method to estimate expected losses for all of Company's loan pools. These pools are as follows: construction & land development; other commercial real estate; residential real estate; commercial & industrial; and consumer & other. The loan portfolio pools were selected in order to generally align with the loan categories specified in the quarterly call reports required to be filed with the Federal Financial Institutions Examination Council. For each of these loan pools, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speed, curtailments, time to recovery, probability of default, and loss given default. The modeling of expected prepayment speeds, curtailment rates, and time to recovery are based on historical internal data. The Company uses regression analysis of historical internal and peer data to determine suitable loss drivers to utilize when modeling lifetime probability of default and loss given default. This analysis also determines how expected probability of default and loss given default will react to forecasted levels of the loss drivers. The identified loss drivers by segment are included below.

Loss Driver Segment	Call Report Segment(s)	Modeled Economic Factors
1-4 Family Construction	1a1	National Unemployment (%) & Housing Price Index (%)
All Other Construction	1a2	National Unemployment (%) & Commercial Real Estate Price Index (%)
1-4 Family Revolving HELOC & Junior Liens	1c1, 1c2b	National Unemployment (%) & Housing Price Index (%)
1-4 Family Senior Liens	1c2a	National Unemployment (%) & Housing Price Index (%)
Multifamily	1d	National Unemployment (%) & Housing Price Index (%)
Owner Occupied CRE	1e1	National Unemployment (%) & Commercial Real Estate Price Index (%)
Non-Owner Occupied CRE	1e2,1b,8	National Unemployment (%) & Commercial Real Estate Price Index (%)
Commercial & Industrial, Agricultural, Non-Depository Financial Institutions, Purchase/Carry Securities, Other	4a, 3, 9a, 9b1, 9b2, Other	National Unemployment (%) & National Retail Sales (%)
Consumer Auto	6c	National Unemployment (%) & National Retail Sales (%)
Other Consumer	6b, 6d	National Unemployment (%) & National Retail Sales (%)
Other Consumer - SPF	6d	National Unemployment (%)

For all DCF models, management has determined that four quarters represents a reasonable and supportable forecast period and reverts to a historical loss rate over four quarters on a straight-line basis. Management leverages economic projections from a reputable and independent third party to inform its loss driver forecasts over the four-quarter forecast period. Other internal and external indicators of economic forecasts are also considered by management when developing the forecast metrics.

The combination of adjustments for credit expectations (default and loss) and time expectations prepayment, curtailment, and time to recovery produces an expected cash flow stream at the instrument level. Instrument effective yield is calculated, net of the impacts of prepayment assumptions, and the instrument expected cash flows are then discounted at that effective yield to produce an instrument-level net present value of expected cash flows ("NPV"). An allowance for credit loss is established for the difference between the instrument's NPV and amortized cost basis.

Construction/Land Development and Other Commercial Real Estate Loans. We originate non-farm and non-residential loans (primarily secured by commercial real estate), construction/land development loans, and agricultural loans, which are generally secured by real estate located in our market areas. Our commercial mortgage loans are generally collateralized by first liens on real estate and amortized (where defined) over a 15 to 30-year period with balloon payments due at the end of one to five years. These loans are generally underwritten by assessing cash flow (debt service coverage), primary and secondary source of repayment, the financial strength of any guarantor, the strength of the tenant (if any), the borrower's liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. Generally, we will loan up to 85% of the value of improved property, 65% of the value of raw land and 75% of the value of land to be acquired and developed. A first lien on the property and assignment of lease is required if the collateral is rental property, with second lien positions considered on a case-by-case basis.

Residential Real Estate Loans. We originate one to four family, residential mortgage loans generally secured by property located in our primary market areas. Residential real estate loans generally have a loan-to-value ratio of up to 90%. These loans are underwritten by giving consideration to many factors including the borrower's ability to pay, stability of employment or source of income, debt-to-income ratio, credit history and loan-to-value ratio.

Commercial and Industrial Loans. Commercial and industrial loans are made for a variety of business purposes, including working capital, inventory, equipment and capital expansion. The terms for commercial loans are generally one to seven years. Commercial loan applications must be supported by current financial information on the borrower and, where appropriate, by adequate collateral. Commercial loans are generally underwritten by addressing cash flow (debt service coverage), primary and secondary sources of repayment, the financial strength of any guarantor, the borrower's liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. The loan to value ratio depends on the type of collateral. Generally, accounts receivable are financed at between 50% and 80% of accounts receivable less than 60 days past due. Inventory financing will range between 50% and 80% (with no work in process) depending on the borrower and nature of inventory. We require a first lien position for those loans.

Consumer & Other Loans. Our consumer & other loans are primarily composed of loans to finance USCG registered high-end sail and power boats as a result of our acquisitions of SPF on June 30, 2018 and LH-Finance on February 29, 2020. The performance of consumer & other loans will be affected by the local and regional economies as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

Off-Balance Sheet Credit Exposures. The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The allowance for credit loss on off-balance sheet credit exposures is adjusted as unfunded commitments expense within non-interest expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The Company uses the DCF method to estimate expected losses for all of Company's off-balance sheet credit exposures through the use of the existing DCF models for the Company's loan portfolio pools. The off-balance sheet credit exposures exhibit similar risk characteristics as loans currently in the Company's loan portfolio.

As of December 31, 2020, the Company expects that the markets in which it operates will continue to experience economic uncertainty along with a continued elevated unemployment rate and level and trend of delinquencies. As a result of COVID-19, the unemployment rate projections significantly increased from January 1, 2020 to December 31, 2020 which had a significant impact on the Company's allowance for credit losses at December 31, 2020, under the loss driver analysis. In addition, the Company made the decision to increase reserves on deferred loans and loans 30 days or more past maturity, resulting from ongoing uncertainties related to the COVID-19 pandemic. As a result, the Company recorded $102.1 million in provision for credit losses on loans. The elevated unemployment rate projections and higher reserves on deferred loans and loans more than 30 days past maturity increased the allowance for credit losses to $245.5 million at December 31, 2020. In addition, the Company recorded a $17.0 million expense for the increase in the Company's unfunded commitment reserve for the year ended December 31, 2020 which was due to an increase in the expected funding percentages for the Company's unfunded commitments as well as an increase in the unemployment rate projections from January 1, 2020 to December 31, 2020, due to COVID-19.

ASC 326 requires that both a discount and an allowance for credit losses be recorded on loans during an acquisition. During the first quarter of 2020, we completed the acquisition of $406.2 million of loans from LH-Finance. As a result, the Company recorded a $6.6 million loan discount and a $9.3 million increase in the allowance for credit losses for this acquisition. A small portion of the loans acquired during the quarter were purchase credit deteriorated ("PCD") loans, so the Company recorded a $357,000 allowance for credit losses on these loans.

The following table presents a summary of changes in the allowance for credit losses:

	December 31, 2020 (In thousands)
Allowance for credit losses:	
Beginning balance	$ 102,122
Impact of adopting ASC 326	43,988
Allowance for credit losses on PCD loans	357
Loans charged off	(14,486)
Recoveries of loans previously charged off	2,070
Net loans recovered (charged off)	(12,416)
Provision for credit losses - loans	102,113
Provision for credit losses - acquired loans	9,309
Balance, December 31, 2020	$ 245,473

The following table presents the activity in the allowance for credit losses for the year ended December 31, 2020.

	Year Ended December 31, 2020					
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Tota
	(In thousands)					
Allowance for credit losses:						
Beginning balance	$ 26,433	$ 33,529	$ 20,135	$ 16,615	$ 5,410	$ 1(
Impact of adopting ASC 326	(5,296)	15,912	16,680	11,584	5,108	4
Allowance for credit losses on PCD loans	—	—	—	—	357	
Loans charged off	(1,218)	(3,041)	(485)	(7,764)	(1,978)	(1
Recoveries of loans previously charged off	107	647	337	218	761	
Net loans recovered (charged off)	(1,111)	(2,394)	(148)	(7,546)	(1,217)	(1
Provision for credit loss - loans	12,835	41,406	16,549	25,877	5,446	1(
Provision for credit loss - acquired loans	—	—	—	—	9,309	
Balance, December 31	$ 32,861	$ 88,453	$ 53,216	$ 46,530	$ 24,413	$ 24

The following tables present the balance in the allowance for credit losses for the year ended December 31, 2019, and the allowance for credit losses and recorded investment in loans based on portfolio segment by impairment method as of December 31, 2019. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

	Year Ended December 31, 2019					
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Total
	(In thousands)					
Allowance for loan losses:						
Beginning balance	$ 21,302	$ 42,336	$ 26,734	$ 14,981	$ 3,438	$ 108,7
Loans charged off	(1,450)	(2,741)	(1,661)	(2,327)	(2,424)	(10,6
Recoveries of loans previously charged off	95	244	926	504	840	2,6
Net loans recovered (charged off)	(1,355)	(2,497)	(735)	(1,823)	(1,584)	(7,9
Provision for loan losses	6,486	(6,310)	(5,864)	3,457	3,556	1,3
Balance, December 31	$ 26,433	$ 33,529	$ 20,135	$ 16,615	$ 5,410	$ 102,1

	As of December 31, 2019					
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Total
	(In thousands)					
Allowance for loan losses:						
Period end amount allocated to:						
Loans individually evaluated for impairment	$ 97	$ 164	$ 2,014	$ 2,401	$ —	$ 4,676
Loans collectively evaluated for impairment	26,336	33,365	18,121	14,214	5,410	97,446
Loans evaluated for impairment balance, December 31	26,433	33,529	20,135	16,615	5,410	102,122
Purchased credit impaired loans	—	—	—	—	—	—
Balance, December 31	$ 26,433	$ 33,529	$ 20,135	$ 16,615	$ 5,410	$ 102,122
Loans receivable:						
Period end amount allocated to:						
Loans individually evaluated for impairment	$ 8,933	$ 58,676	$ 56,192	$ 82,434	$ 3,195	$ 209,430
Loans collectively evaluated for impairment	1,767,756	4,442,493	2,251,307	1,445,569	753,155	10,660,280
Loans evaluated for impairment balance, December 31	1,776,689	4,501,169	2,307,499	1,528,003	756,350	10,869,710
Purchased credit impaired loans	—	—	—	—	—	—
Balance, December 31	$ 1,776,689	$ 4,501,169	$ 2,307,499	$ 1,528,003	$ 756,350	$ 10,869,710

The following tables present the balance in the allowance for loan losses for the loan portfolio for the year ended December 31, 2018, and the allowance for loan losses and recorded investment in loans based on portfolio segment by impairment method as of December 31, 2018. Allocation of a portion of the allowance to one type of loans does not preclude its availability to absorb losses in other categories.

	Year Ended December 31, 2018						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	T
	(In thousands)						
Allowance for loan losses:							
Beginning balance	$ 20,343	$ 43,939	$ 24,506	$ 15,292	$ 3,334	$ 2,852	$
Loans charged off	(399)	(1,211)	(2,744)	(2,221)	(2,413)	—	
Recoveries of loans previously charged off	180	527	924	624	936	—	
Net loans recovered (charged off)	(219)	(684)	(1,820)	(1,597)	(1,477)	—	
Provision for loan losses	1,178	(919)	4,048	1,286	1,581	(2,852)	
Balance, December 31	$ 21,302	$ 42,336	$ 26,734	$ 14,981	$ 3,438	$ —	$

	As of December 31, 2018						
	Construction/ Land Development	Other Commercial Real Estate	Residential Real Estate	Commercial & Industrial	Consumer & Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 732	$ 468	$ 100	$ 21	$ —	$ —	$ 1,321
Loans collectively evaluated for impairment	20,336	41,512	25,970	14,789	3,438	—	106,045
Loans evaluated for impairment balance, December 31	21,068	41,980	26,070	14,810	3,438	—	107,366
Purchased credit impaired loans	234	356	664	171	—	—	1,425
Balance, December 31	$ 21,302	$ 42,336	$ 26,734	$ 14,981	$ 3,438	$ —	$ 108,791
Loans receivable:							
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 14,519	$ 58,706	$ 29,535	$ 30,251	$ 3,688	$ —	$ 136,699
Loans collectively evaluated for impairment	1,522,520	4,741,484	2,473,467	1,431,608	624,561	—	$ 10,793,640
Loans evaluated for impairment balance, December 31	1,537,039	4,800,190	2,503,002	1,461,859	628,249	—	$ 10,930,339
Purchased credit impaired loans	8,996	82,927	33,059	14,472	2,086	—	$ 141,540
Balance, December 31	$ 1,546,035	$ 4,883,117	$ 2,536,061	$ 1,476,331	$ 630,335	$ —	$ 11,071,879

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 90 days still accruing as of December 31, 2020:

	Nonaccrual	Nonaccrual With Reserve	Loans Past Due Over 90 Days Still Accruing
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	$ 20,947	$ 6,794	$ 6,088
Construction/land development	1,381	2,089	1,296
Agricultural	879	—	—
Residential real estate loans			
Residential 1-4 family	19,334	3,000	1,821
Multifamily residential	173	—	—
Total real estate	42,714	11,883	9,205
Consumer	3,506	—	174
Commercial and industrial	17,251	—	231
Agricultural & other	1,057	—	—
Total	$ 64,528	$ 11,883	$ 9,610

The Company had $64.5 million and $47.6 million in nonaccrual loans for the periods ended December 31, 2020 and 2019, respectively. In addition, the Company had $9.6 million and $7.2 million in loans past due 90 days or more and still accruing for the periods ended December 31, 2020 and 2019, respectively.

The Company had $11.9 million in nonaccrual loans with a specific reserve as of December 31, 2020. The Company did not recognize any interest income on nonaccrual loans during the period ended December 31, 2020.

The following table presents the amortized cost basis of collateral-dependent impaired loans by class of loans as of December 31, 2020:

	Commercial Real Estate	Residential Real Estate	Other
		(In thousands)	
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	$ 47,429	$ —	$ —
Construction/land development	6,012	—	—
Agricultural	879	—	—
Residential real estate loans			
Residential 1-4 family	—	32,413	—
Multifamily residential	—	173	—
Total real estate	54,320	32,586	—
Consumer	—	—	3,694
Commercial and industrial	—	—	21,027
Agricultural & other	—	—	1,057
Total	$ 54,320	$ 32,586	$ 25,778

The Company had $112.7 million and $78.9 million in collateral-dependent impaired loans for the periods ended December 31, 2020 and 2019, respectively.

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral-dependent impaired loans where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the financial asset to be provided substantially through the operation or sale of the collateral, the allowance for credit losses is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the loan exceeds the present value of expected cash flows from the operation of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the loan exceeds the fair value of the underlying collateral less estimated costs to sell. The allowance for credit losses may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the loan.

The following is a summary of the impaired loans as of December 31, 2019 and 2018:

	December 31, 2019				
				Year Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Interest Recognized
	(In thousands)				
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	$ 38	$ 38	$ —	$ 40	$ 3
Construction/land development	30	30	—	22	2
Agricultural	—	—	—	7	—
Residential real estate loans					
Residential 1-4 family	288	288	—	253	22
Multifamily residential	—	—	—	—	—
Total real estate	356	356	—	322	27
Consumer	27	27	—	24	3
Commercial and industrial	55	55	—	124	3
Agricultural and other	—	—	—	—	—
Total loans without a specific valuation allowance	438	438	—	470	33
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	24,533	24,010	159	34,612	1,729
Construction/land development	6,718	6,491	97	8,334	247
Agricultural	1,095	1,095	5	736	20
Residential real estate loans					
Residential 1-4 family	25,476	25,099	2,008	23,574	202
Multifamily residential	620	620	6	1,925	52
Total real estate	58,442	57,315	2,275	69,181	2,250
Consumer	1,980	1,949	—	2,744	27
Commercial and industrial	18,070	17,952	2,401	9,212	91
Agricultural and other	1,219	1,219	—	534	—
Total loans with a specific valuation allowance	79,711	78,435	4,676	81,671	2,368
Total impaired loans					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	24,571	24,048	159	34,652	1,732
Construction/land development	6,748	6,521	97	8,356	249
Agricultural	1,095	1,095	5	743	20
Residential real estate loans					
Residential 1-4 family	25,764	25,387	2,008	23,827	224
Multifamily residential	620	620	6	1,925	52
Total real estate	58,798	57,671	2,275	69,503	2,277
Consumer	2,007	1,976	—	2,768	30
Commercial and industrial	18,125	18,007	2,401	9,336	94
Agricultural and other	1,219	1,219	—	534	—
Total impaired loans	$ 80,149	$ 78,873	$ 4,676	$ 82,141	$ 2,401

	December 31, 2018				
				Year Ended	
	Unpaid Contractual Principal Balance	Total Recorded Investment	Allocation of Allowance for Loan Losses	Average Recorded Investment	Interest Recognized
	(In thousands)				
Loans without a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	$ 42	$ 42	$ —	$ 34	$ 3
Construction/land development	16	16	—	27	1
Agricultural	11	11	—	15	1
Residential real estate loans					
Residential 1-4 family	223	223	—	193	16
Multifamily residential	—	—	—	—	—
Total real estate	292	292	—	269	21
Consumer	27	27	—	24	2
Commercial and industrial	236	236	—	199	13
Agricultural and other	—	—	—	—	—
Total loans without a specific valuation allowance	555	555	—	492	36
Loans with a specific valuation allowance					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	42,474	38,594	460	34,891	1,632
Construction/land development	13,178	12,091	732	12,337	307
Agricultural	291	294	8	388	18
Residential real estate loans					
Residential 1-4 family	22,570	20,526	58	19,017	485
Multifamily residential	2,369	2,369	42	2,166	83
Total real estate	80,882	73,874	1,300	68,799	2,525
Consumer	3,830	3,629	—	1,236	52
Commercial and industrial	11,176	7,550	21	10,599	257
Agricultural and other	33	32	—	146	3
Total loans with a specific valuation allowance	95,921	85,085	1,321	80,780	2,837
Total impaired loans					
Real estate:					
Commercial real estate loans					
Non-farm/non-residential	42,516	38,636	460	34,925	1,635
Construction/land development	13,194	12,107	732	12,364	308
Agricultural	302	305	8	403	19
Residential real estate loans					
Residential 1-4 family	22,793	20,749	58	19,210	501
Multifamily residential	2,369	2,369	42	2,166	83
Total real estate	81,174	74,166	1,300	69,068	2,546
Consumer	3,857	3,656	—	1,260	54
Commercial and industrial	11,412	7,786	21	10,798	270
Agricultural and other	33	32	—	146	3
Total impaired loans	$ 96,476	$ 85,640	$ 1,321	$ 81,272	$ 2,873

Note: Purchased credit impaired loans are accounted for on a pooled basis under ASC 310-30. All of these pools are currently considered to be performing resulting in none of the purchased credit impaired loans being classified as impaired loans as of December 31, 2018.

The following is an aging analysis for loans receivable as of December 31, 2020 and 2019:

	December 31, 2020						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 3,856	$ 68	$ 27,035	$ 30,959	$ 4,398,101	$ 4,429,060	$ 6,088
Construction/land development	178	44	2,677	2,899	1,559,399	1,562,298	1,296
Agricultural	522	—	879	1,401	113,030	114,431	—
Residential real estate loans							
Residential 1-4 family	4,833	7,787	21,155	33,775	1,502,482	1,536,257	1,821
Multifamily residential	111	—	173	284	536,254	536,538	—
Total real estate	9,500	7,899	51,919	69,318	8,109,266	8,178,584	9,205
Consumer	2,899	802	3,680	7,381	857,309	864,690	174
Commercial and industrial	960	515	17,482	18,957	1,877,485	1,896,442	231
Agricultural and other	1,125	3,713	1,057	5,895	275,110	281,005	—
Total	$ 14,484	$ 12,929	$ 74,138	$ 101,551	$ 11,119,170	$ 11,220,721	$ 9,610

	December 31, 2019						
	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due	Current Loans	Total Loans Receivable	Accruing Loans Past Due 90 Days or More
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ 1,628	$ 454	$ 14,160	$ 16,242	$ 4,396,527	$ 4,412,769	$ 3,194
Construction/land development	358	1,042	3,180	4,580	1,772,109	1,776,689	1,821
Agricultural	698	—	1,094	1,792	86,608	88,400	—
Residential real estate loans							
Residential 1-4 family	3,150	3,956	21,928	29,034	1,790,187	1,819,221	1,614
Multifamily residential	—	—	331	331	487,947	488,278	—
Total real estate	5,834	5,452	40,693	51,979	8,533,378	8,585,357	6,629
Consumer	659	179	1,949	2,787	509,122	511,909	317
Commercial and industrial	1,835	104	10,984	12,923	1,515,080	1,528,003	292
Agricultural and other	646	3	1,219	1,868	242,573	244,441	—
Total	$ 8,974	$ 5,738	$ 54,845	$ 69,557	$ 10,800,153	$ 10,869,710	$ 7,238

Non-accruing loans were $64.5 million and $47.6 million at December 31, 2020 and 2019, respectively,

Interest recognized on impaired loans during the years ended December 31, 2020, 2019 and 2018 was approximately $1.4 million, $2.4 million and $2.9 million, respectively. The amount of interest recognized on impaired loans on the cash basis is not materially different than the accrual basis.

Credit Quality Indicators. As part of the on-going monitoring of the credit quality of the Company’s loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk rating of loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) non-performing loans and (v) the general economic conditions in Arkansas, Florida Alabama and New York.

The Company utilizes a risk rating matrix to assign a risk rating to each of its loans. Loans are rated on a scale from 1 to 8. Descriptions of the general characteristics of the 8 risk ratings are as follows:

- *Risk rating 1 – Excellent.* Loans in this category are to persons or entities of unquestionable financial strength, a highly liquid financial position, with collateral that is liquid and well margined. These borrowers have performed without question on past obligations, and the Bank expects their performance to continue. Internally generated cash flow covers current maturities of long-term debt by a substantial margin. Loans secured by bank certificates of deposit and savings accounts, with appropriate holds placed on the accounts, are to be rated in this category.

- *Risk rating 2 – Good.* These are loans to persons or entities with strong financial condition and above-average liquidity that have previously satisfactorily handled their obligations with the Bank. Collateral securing the Bank's debt is margined in accordance with policy guidelines. Internally generated cash flow covers current maturities of long-term debt more than adequately. Unsecured loans to individuals supported by strong financial statements and on which repayment is satisfactory may be included in this classification.

- *Risk rating 3 – Satisfactory.* Loans to persons or entities with an average financial condition, adequate collateral margins, adequate cash flow to service long-term debt, and net worth comprised mainly of fixed assets are included in this category. These entities are minimally profitable now, with projections indicating continued profitability into the foreseeable future. Closely held corporations or businesses where a majority of the profits are withdrawn by the owners or paid in dividends are included in this rating category. Overall, these loans are basically sound.

- *Risk rating 4 – Watch.* Borrowers who have marginal cash flow, marginal profitability or have experienced an unprofitable year and a declining financial condition characterize these loans. The borrower has in the past satisfactorily handled debts with the Bank, but in recent months has either been late, delinquent in making payments, or made sporadic payments. While the Bank continues to be adequately secured, margins have decreased or are decreasing, despite the borrower's continued satisfactory condition. Other characteristics of borrowers in this class include inadequate credit information, weakness of financial statement and repayment capacity, but with collateral that appears to limit exposure.

- *Risk rating 5 – Other Loans Especially Mentioned ("OLEM").* A loan criticized as OLEM has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. OLEM assets are not adversely classified and do not expose the institution to sufficient risks to warrant adverse classification.

- *Risk rating 6 – Substandard.* A loan classified as substandard is inadequately protected by the sound worth and paying capacity of the borrower or the collateral pledged. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual assets.

- *Risk rating 7 – Doubtful.* A loan classified as doubtful has all the weaknesses inherent in a loan classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. These are poor quality loans in which neither the collateral, if any, nor the financial condition of the borrower presently ensure collectability in full in a reasonable period of time; in fact, there is permanent impairment in the collateral securing the loan.

- *Risk rating 8 – Loss.* Assets classified as loss are considered uncollectible and of such little value that the continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this basically worthless asset, even though partial recovery may occur in the future. This classification is based upon current facts, not probabilities. Assets classified as loss should be charged-off in the period in which they became uncollectible.

Loans may be classified, but not considered impaired, due to one of the following reasons: (1) The Company has established minimum dollar amount thresholds for loan impairment testing. All loans over $2.0 million that are rated 5 – 8 are individually assessed for impairment on a quarterly basis. Loans rated 5 – 8 that fall under the threshold amount are not individually tested for impairment and therefore are not included in impaired loans; (2) of the loans that are above the threshold amount and tested for impairment, after testing, some are considered to not be impaired and are not included in impaired loans.

Based on the most recent analysis performed, the risk category of loans by class is as follows:

	Term Loans Amortized Cost Basis by Origination Year							
	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
	(In thousands)							
Real estate:								
Commercial real estate loans								
Non-farm/non-residential								
Risk rating 1	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Risk rating 2	—	—	—	—	—	—	25	25
Risk rating 3	301,237	340,562	546,670	286,173	289,483	942,449	266,867	2,973,441
Risk rating 4	27,239	139,354	161,461	265,684	197,979	300,055	17,305	1,109,077
Risk rating 5	10,591	16,865	67,089	7,764	108,885	84,609	750	296,553
Risk rating 6	—	859	2,289	987	4,577	40,600	86	49,398
Risk rating 7	—	—	—	—	—	552	—	552
Risk rating 8	—	—	—	—	—	14	—	14
Total non-farm/non-residential	339,067	497,640	777,509	560,608	600,924	1,368,279	285,033	4,429,060
Construction/land development								
Risk rating 1	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Risk rating 2	—	—	—	—	—	283	—	283
Risk rating 3	211,567	181,257	91,323	33,986	25,600	54,245	115,120	713,098
Risk rating 4	129,599	417,737	92,032	46,249	17,161	32,060	76,845	811,683
Risk rating 5	—	—	392	21,892	—	1,227	545	24,056
Risk rating 6	—	763	98	63	157	12,065	—	13,146
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	1	—	31	—	32
Total construction/land development	341,166	599,757	183,845	102,191	42,918	99,911	192,510	1,562,298
Agricultural								
Risk rating 1	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Risk rating 2	—	—	—	—	—	—	—	—
Risk rating 3	33,428	8,885	9,119	5,397	3,935	25,159	5,538	91,461
Risk rating 4	2,141	535	1,206	681	5,499	10,735	665	21,462
Risk rating 5	—	—	—	—	—	116	—	116
Risk rating 6	47	—	—	—	—	1,345	—	1,392
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	—	—	—
Total agricultural	35,616	9,420	10,325	6,078	9,434	37,355	6,203	114,431
Total commercial real estate loans	$ 715,849	$ 1,106,817	$ 971,679	$ 668,877	$ 653,276	$ 1,505,545	$ 483,746	$ 6,105,789
Residential real estate loans								
Residential 1-4 family								
Risk rating 1	$ —	$ 47	$ —	$ —	$ 76	$ 12	$ 120	$ 255
Risk rating 2	—	—	—	—	—	423	1,540	1,963
Risk rating 3	237,991	184,578	151,478	139,096	119,642	343,381	119,186	1,295,352
Risk rating 4	4,626	12,716	32,594	20,687	16,148	68,328	30,137	185,236
Risk rating 5	—	—	1,363	4,700	383	5,344	516	12,306
Risk rating 6	554	5,973	829	2,084	3,222	18,074	10,257	40,993
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	8	144	152
Total residential 1-4 family	243,171	203,314	186,264	166,567	139,471	435,570	161,900	1,536,257
Multifamily residential								
Risk rating 1	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Risk rating 2	—	—	—	—	—	—	—	—
Risk rating 3	19,033	60,175	87,104	11,477	8,092	59,592	6,386	251,859
Risk rating 4	477	6,358	101,364	93,475	1,924	17,672	37,286	258,556
Risk rating 5	—	—	—	—	—	24,945	—	24,945
Risk rating 6	—	—	—	894	—	284	—	1,178
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	—	—	—
Total multifamily residential	19,510	66,533	188,468	105,846	10,016	102,493	43,672	536,538
Total real estate	$ 978,530	$ 1,376,664	$ 1,346,411	$ 941,290	$ 802,763	$ 2,043,608	$ 689,318	$ 8,178,584

	Term Loans Amortized Cost Basis by Origination Year, Continued							
	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
	(In thousands)							
Consumer								
Risk rating 1	$ 3,389	$ 2,375	$ 1,596	$ 485	$ 828	$ 1,428	$ 1,957	$ 12,058
Risk rating 2	—	47	931	—	—	12	57	1,047
Risk rating 3	229,189	192,054	152,646	97,812	68,585	68,871	20,094	829,251
Risk rating 4	3,699	3,479	2,769	1,411	1,371	1,991	117	14,837
Risk rating 5	144	737	22	198	568	321	—	1,990
Risk rating 6	12	361	566	3	2,052	2,468	45	5,507
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	—	—	—
Total consumer	236,433	199,053	158,530	99,909	73,404	75,091	22,270	864,690
Commercial and industrial								
Risk rating 1	632,735	$ 506	$ 271	$ 183	$ 20,199	$ 1,445	$ 10,023	$ 665,362
Risk rating 2	29	187	2	96	67	623	268	1,272
Risk rating 3	80,586	131,717	62,814	35,651	39,502	52,743	135,590	538,603
Risk rating 4	68,032	144,867	149,445	42,416	15,138	43,065	115,341	578,304
Risk rating 5	3,195	16,341	11,283	346	251	448	10,637	42,501
Risk rating 6	1,261	4,086	30,834	22,992	2,615	5,198	3,405	70,391
Risk rating 7	—	3	—	—	—	—	—	3
Risk rating 8	1	—	1	—	4	—	—	6
Total commercial and industrial	785,839	297,707	254,650	101,684	77,776	103,522	275,264	1,896,442
Agricultural and other								
Risk rating 1	$ 59,248	$ 51	$ 53	$ —	$ 110	$ 27	$ 1,036	$ 60,525
Risk rating 2	16	4,571	—	—	—	2,859	1,159	8,605
Risk rating 3	78,305	7,045	5,050	5,045	18,445	36,925	42,401	193,216
Risk rating 4	1,043	5,041	1,592	1,096	895	1,703	4,600	15,970
Risk rating 5	—	—	—	—	—	605	—	605
Risk rating 6	—	219	18	—	223	1,624	—	2,084
Risk rating 7	—	—	—	—	—	—	—	—
Risk rating 8	—	—	—	—	—	—	—	—
Total agricultural and other	138,612	16,927	6,713	6,141	19,673	43,743	49,196	281,005
Total	$ 2,139,414	$ 1,890,351	$ 1,766,304	$ 1,149,024	$ 973,616	$ 2,265,964	$ 1,036,048	$ 11,220,721

The following is a presentation of loans receivable by class and risk rating as of December 31, 2019:

	December 31, 2019						
	Risk Rated 1	Risk Rated 2	Risk Rated 3	Risk Rated 4	Risk Rated 5	Classified Total	Total
	(In thousands)						
Real estate:							
Commercial real estate loans							
Non-farm/non-residential	$ —	$ 655	$ 3,412,696	$ 922,487	$ 45,653	$ 31,278	$ 4,412,769
Construction/land development	5	612	833,749	926,877	152	15,294	1,776,689
Agricultural	—	—	69,512	16,689	875	1,324	88,400
Residential real estate loans							
Residential 1-4 family	833	802	1,511,398	256,879	9,502	39,807	1,819,221
Multifamily residential	—	-	355,241	105,728	26,864	445	488,278
Total real estate	838	2,069	6,182,596	2,228,660	83,046	88,148	8,585,357
Consumer	14,859	1,851	481,923	9,833	673	2,770	511,909
Commercial and industrial	39,556	7,910	862,068	525,766	54,278	38,425	1,528,003
Agricultural and other	1,567	10,197	171,398	58,030	1,955	1,294	244,441
Total risk rated loans	$ 56,820	$ 22,027	$ 7,697,985	$ 2,822,289	$ 139,952	$ 130,637	10,869,710
Purchased credit impaired loans							—
Total loans receivable							$ 10,869,710

Historically, the Company has graded loans receivable having risk ratings of 1 to 5 as “Pass,” with most of the Company’s loans being rated as “Satisfactory” (Risk rating 3) or “Watch” (Risk rating 4). The Company’s policy in recent years was to rate certain loans as “Watch” based solely on the borrower’s industry or the loan type and not due to a particular indication of weakness in the credit itself. These “Watch” loans included substantially all construction loans, accounts receivable loans, inventory lines of credit, SBA loans and agriculture loans. Over time, as the Company’s construction loan balances increased, the relative level of “Watch” loans grew. The Company determined that this policy election resulted in overestimating the overall risk in the loan portfolio, as it did not give consideration to the financial strength of the borrower. The Company determined that rating these loans as “Watch” could potentially mask the first opportunity to identify a weakness in a credit, and therefore, could lead to a later recognition of problem loans if loan quality deterioration occurred. Therefore, effective in the second quarter of 2019, the Company revised its “Watch” risk rating definition to no longer include certain loans solely based on industry and to focus on attributes such as the financial strength of the borrower/guarantor, repayment ability of the project on a global basis, equity and other relevant factors.

In the second quarter of 2019, the Company reviewed the loans previously rated as “Watch” based on the change in philosophy and determined which loans should be moved to “Satisfactory” based on the attributes noted above. This resulted in approximately $1.5 billion in loans being moved from “Watch” to “Satisfactory.” The Company believes that this change more accurately portrays the risk in the loan portfolio. This did not have a material impact on the allowance for loan losses as the grading changes were within the “Pass” category.

The Company considers the performance of the loan portfolio and its impact on the allowance for credit losses. The Company also evaluates credit quality based on the aging status of the loan, which was previously presented and by payment activity. The following table presents the amortized cost of performing and nonperforming loans.

	Term Loans Amortized Cost Basis by Origination Year							
	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
				(In thousands)				
Real estate:								
Commercial real estate loans								
Non-farm/non-residential								
Performing	$ 339,067	$ 497,640	$ 775,220	$ 560,279	$ 598,074	$ 1,326,404	$ 284,947	$ 4,381,631
Non-performing	—	—	2,289	329	2,850	41,875	86	47,429
Total non-farm/ non-residential	339,067	497,640	777,509	560,608	600,924	1,368,279	285,033	4,429,060
Construction/land development								
Performing	341,166	598,995	183,821	102,127	42,779	94,888	192,510	1,556,286
Non-performing	—	762	24	64	139	5,023	—	6,012
Total construction/ land development	341,166	599,757	183,845	102,191	42,918	99,911	192,510	1,562,298
Agricultural								
Performing	$ 35,616	$ 9,420	$ 10,325	$ 6,078	$ 9,434	$ 36,476	$ 6,203	$ 113,552
Non-performing	—	—	—	—	—	879	—	879
Total agricultural	35,616	9,420	10,325	6,078	9,434	37,355	6,203	114,431
Total commercial real estate loans	$ 715,849	$ 1,106,817	$ 971,679	$ 668,877	$ 653,276	$ 1,505,545	$ 483,746	$ 6,105,789
Residential real estate loans								
Residential 1-4 family								
Performing	$ 242,505	$ 196,951	$ 185,316	$ 161,274	$ 137,840	$ 425,056	$ 154,902	$ 1,503,844
Non-performing	666	6,363	948	5,293	1,631	10,514	6,998	32,413
Total residential 1-4 family	243,171	203,314	186,264	166,567	139,471	435,570	161,900	1,536,257
Multifamily residential								
Performing	$ 19,510	$ 66,533	$ 188,468	$ 105,846	$ 10,016	$ 102,320	$ 43,672	$ 536,365
Non-performing	—	—	—	—	—	173	—	173
Total multifamily residential	19,510	66,533	188,468	105,846	10,016	102,493	43,672	536,538
Total real estate	978,530	$ 1,376,664	$ 1,346,411	$ 941,290	$ 802,763	$ 2,043,608	$ 689,318	$ 8,178,584
Consumer								
Performing	$ 236,395	$ 198,737	$ 158,324	$ 99,905	$ 71,924	$ 73,448	$ 22,263	$ 860,996
Non-performing	38	316	206	4	1,480	1,643	7	3,694
Total consumer	236,433	199,053	158,530	99,909	73,404	75,091	22,270	864,690
Commercial and industrial								
Performing	$ 785,776	$ 293,938	$ 246,177	$ 98,664	$ 76,427	$ 100,050	$ 274,383	$ 1,875,415
Non-performing	63	3,769	8,473	3,020	1,349	3,472	881	21,027
Total commercial and industrial	785,839	297,707	254,650	101,684	77,776	103,522	275,264	1,896,442
Agricultural and other								
Performing	$ 138,612	$ 16,927	$ 6,695	$ 6,141	$ 19,450	$ 42,927	$ 49,196	$ 279,948
Non-performing	—	—	18	—	223	816	—	1,057
Total agricultural and other	138,612	16,927	6,713	6,141	19,673	43,743	49,196	281,005
Total	$ 2,139,414	$ 1,890,351	$ 1,766,304	$ 1,149,024	$ 973,616	$ 2,265,964	$ 1,036,048	$ 11,220,721

The Company had approximately $104.2 million or 328 total revolving loans convert to term loans for the year ended December 31, 2020. These loans were considered immaterial for vintage disclosure inclusion.

The Company's classified loans include loans in risk ratings 6, 7 and 8. The following is a presentation of classified loans (excluding loans accounted for under ASC Topic 310-30) by class as of December 31, 2019:

	December 31, 2019			
	Risk Rated 6	Risk Rated 7	Risk Rated 8	Classified Total
	(In thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 29,444	$ 1,834	$ —	$ 31,278
Construction/land development	14,748	546	—	15,294
Agricultural	1,324	—	—	1,324
Residential real estate loans				
Residential 1-4 family	39,686	121	—	39,807
Multifamily residential	445	—	—	445
Total real estate	85,647	2,501	—	88,148
Consumer	2,771	(1)	—	2,770
Commercial and industrial	37,984	441	—	38,425
Agricultural and other	1,294	—	—	1,294
Total	$ 127,696	$ 2,941	$ —	$ 130,637

The following is a presentation of troubled debt restructurings ("TDRs") by class as of December 31, 2020, 2019 and 2018:

	December 31, 2020					
	Number of Loans	Pre-Modification Outstanding Balance	Rate Modification	Term Modification	Rate & Term Modification	Post-Modification Outstanding Balance
	(Dollars in thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	14	$ 11,510	$ 4,350	$ 383	$ 4,723	$ 9,456
Construction/land development	2	58	—	7	9	16
Agricultural	1	282	267	—	—	267
Residential real estate loans						
Residential 1-4 family	21	2,913	1,441	165	431	2,037
Multifamily residential	—	—	—	—	—	—
Total real estate	38	14,763	6,058	555	5,163	11,776
Consumer	1	17	14	—	—	14
Commercial and industrial	12	2,470	308	127	91	526
Total	51	$ 17,250	$ 6,380	$ 682	$ 5,254	$ 12,316

	December 31, 2019										
	Number of Loans		Pre-Modification Outstanding Balance		Rate Modification		Term Modification		Rate & Term Modification		Post-Modification Outstanding Balance
	(Dollars in thousands)										
Real estate:											
Commercial real estate loans											
Non-farm/non-residential	14	$	12,738	$	6,622	$	232	$	4,397	$	11,251
Construction/land development	3		618		546		12		19		577
Agricultural	2		387		387		—		—		387
Residential real estate loans											
Residential 1-4 family	21		2,774		1,068		227		704		1,999
Multifamily residential	2		457		128		—		290		418
Total real estate	42		16,974		8,751		471		5,410		14,632
Consumer	3		39		24		3		—		27
Commercial and industrial	9		3,069		598		615		382		1,595
Total	54	$	20,082	$	9,373	$	1,089	$	5,792	$	16,254

	December 31, 2018										
	Number of Loans		Pre-Modification Outstanding Balance		Rate Modification		Term Modification		Rate & Term Modification		Post-Modification Outstanding Balance
	(Dollars in thousands)										
Real estate:											
Commercial real estate loans											
Non-farm/non-residential	17	$	15,227	$	8,482	$	982	$	4,475	$	13,939
Construction/land development	2		584		546		17		—		563
Agricultural	2		345		283		14		—		297
Residential real estate loans											
Residential 1-4 family	22		3,204		1,059		281		1,022		2,362
Multifamily residential	3		1,701		1,253		—		286		1,539
Total real estate	46		21,061		11,623		1,294		5,783		18,700
Consumer	5		38		18		9		—		27
Commercial and industrial	14		1,679		897		105		—		1,002
Total	65	$	22,778	$	12,538	$	1,408	$	5,783	$	19,729

The following is a presentation of TDRs on non-accrual status as of December 31, 2020, 2019 and 2018 because they are not in compliance with the modified terms:

	December 31, 2020		December 31, 2019		December 31, 2018	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
	(Dollars in thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	2	$ 350	2	$ 1,363	4	$ 2,950
Construction/land development	1	9	2	565	1	546
Agricultural	1	267	2	387	1	14
Residential real estate loans						
Residential 1-4 family	7	547	7	530	8	778
Multifamily residential	—	—	1	128	1	142
Total real estate	11	1,173	14	2,973	15	4,430
Consumer	—	—	—	—	1	2
Commercial and industrial	8	414	4	1,159	6	194
Total	19	$ 1,587	18	$ 4,132	22	$ 4,626

The following is a presentation of total foreclosed assets as of December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
	(In thousands)	
Commercial real estate loans		
Non-farm/non-residential	$ 438	$ 3,528
Construction/land development	3,189	3,218
Agricultural	—	—
Residential real estate loans		
Residential 1-4 family	793	2,397
Multifamily residential	—	0
Total foreclosed assets held for sale	$ 4,420	$ 9,143

The Company has purchased loans for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination. The purchase price of the loans at acquisition was $1.3 million, and a $357,000 allowance for credit losses was recorded on these loans at acquisition along with a $17,000 non-credit premium. The allowance and non-credit premium resulted in a par value of $1.0 million for these loans at acquisition. As of December 31, 2020, the balance of purchase credit deteriorated loans was approximately $760,000.

6. Goodwill and Core Deposits and Other Intangibles

Changes in the carrying amount and accumulated amortization of the Company’s goodwill and core deposits and other intangibles at December 31, 2020 and 2019, were as follows:

	December 31, 2020	December 31, 2019
Goodwill	(In thousands)	
Balance, beginning of period	$ 958,408	$ 958,408
Acquisitions	14,617	—
Balance, end of period	$ 973,025	$ 958,408

	December 31, 2020	December 31, 2019
Core Deposit and Other Intangibles	(In thousands)	
Balance, beginning of period	$ 36,572	$ 42,896
Acquisitions	—	—
Amortization expense	(5,844)	(6,324)
Balance, end of year	$ 30,728	$ 36,572

The carrying basis and accumulated amortization of core deposits and other intangibles at December 31, 2020 and 2019 were:

	December 31, 2020	December 31, 2019
	(In thousands)	
Gross carrying amount	$ 86,625	$ 86,625
Accumulated amortization	(55,897)	(50,053)
Net carrying amount	$ 30,728	$ 36,572

Core deposit and other intangible amortization expense for the years ended December 31, 2020, 2019 and 2018 was approximately $5.8 million, $6.3 million and $6.5 million, respectively. Core deposit and other intangibles are tested annually for impairment during the fourth quarter. During the 2020 review, no impairment was found. Including all of the mergers completed as of December 31, 2020, HBI's estimated amortization expense of core deposits and other intangibles for each of the years 2021 through 2025 is approximately: 2021 – $5.7 million; 2022 – $5.7 million; 2023 – $5.5 million; 2024 – $4.3 million; 2025 – $3.9 million.

The carrying amount of the Company's goodwill was $973.0 million and $958.4 million at December 31, 2020 and 2019, respectively. Goodwill is tested annually for impairment during the fourth quarter. Due to market conditions in 2020, the Company performed a qualitative assessment each quarter to determine whether it was more likely than not that fair value was less than the Company's carrying value. Based on the Company's assessments, it was determined that the Company's fair value exceeded its carrying value and no impairment was recorded. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated, and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

7. Other Assets

Other assets consist primarily of equity securities without a readily determinable fair value and other miscellaneous assets. As of December 31, 2020 and 2019 other assets were $164.9 million and $213.8 million, respectively.

The Company has equity securities without readily determinable fair values such as stock holdings in the Federal Home Loan Bank ("FHLB") and the Federal Reserve Bank ("Federal Reserve") which are outside the scope of ASC Topic 321, *Investments – Equity Securities* ("ASC Topic 321"). These equity securities without a readily determinable fair value were $86.7 million and $100.0 million at December 31, 2020 and December 31, 2019, respectively, and are accounted for at cost.

The Company has equity securities such as stock holdings in First National Bankers' Bank and other miscellaneous holdings which are accounted for under ASC Topic 321. These equity securities without a readily determinable fair value were $28.2 million and $27.3 million at December 31, 2020 and 2019, respectively. There were no transactions during the period that would indicate a material change in fair value. Therefore, these investments were accounted for at cost, less impairment.

8. Deposits

The aggregate amount of time deposits with a minimum denomination of $250,000 was $588.0 million and $1.12 billion at December 31, 2020 and 2019, respectively. The aggregate amount of time deposits with a minimum denomination of $100,000 was $864.3 million and $1.54 billion at December 31, 2020 and 2019, respectively. Interest expense applicable to certificates in excess of $100,000 totaled $22.8 million, $31.3 million and $17.7 million for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020 and 2019, brokered deposits were $635.7 million and $579.7 million, respectively.

The following is a summary of the scheduled maturities of all time deposits at December 31, 2020 (in thousands):

One month or less	$	196,660
Over 1 month to 3 months		163,337
Over 3 months to 6 months		251,560
Over 6 months to 12 months		410,797
Over 12 months to 2 years		172,219
Over 2 years to 3 years		33,238
Over 3 years to 5 years		18,692
Over 5 years		294
Total time deposits	$	1,246,797

Deposits totaling approximately $1.98 billion and $2.21 billion at December 31, 2020 and 2019, respectively, were public funds obtained primarily from state and political subdivisions in the United States.

9. Securities Sold Under Agreements to Repurchase

At December 31, 2020 and 2019, securities sold under agreements to repurchase totaled $168.9 million and $143.7 million, respectively. For the years ended December 31, 2020 and 2019, securities sold under agreements to repurchase daily weighted-average totaled $151.6 million and $149.7 million, respectively. The remaining contractual maturity of securities sold under agreements to repurchase in the consolidated balance sheets as of December 31, 2020 and 2019 is presented in the following tables:

	December 31, 2020				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
			(In thousands)		
Securities sold under agreements to repurchase:					
U.S. government-sponsored enterprises	$ 11,166	$ —	$ —	$ —	$ 11,166
Mortgage-backed securities	18,830	—	—	—	18,830
State and political subdivisions	135,308	—	—	—	135,308
Other securities	3,627	—	—	—	3,627
Total borrowings	$ 168,931	$ —	$ —	$ —	$ 168,931

	December 31, 2019				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
			(In thousands)		
Securities sold under agreements to repurchase:					
U.S. government-sponsored enterprises	$ 22,714	$ —	$ —	$ —	$ 22,714
Mortgage-backed securities	30,708	—	—	—	30,708
State and political subdivisions	84,540	—	—	—	84,540
Other securities	5,765	—	—	—	5,765
Total borrowings	$ 143,727	$ —	$ —	$ —	$ 143,727

10. FHLB and Other Borrowed Funds

The Company’s FHLB borrowed funds, which are secured by our loan portfolio, were $400.0 million and $621.4 million at December 31, 2020 and 2019, respectively. The Company had no other borrowed funds as of December 31, 2020 or December 31, 2019. At December 31, 2020, the entire $400.0 million balance was classified as long term advances. At December 31, 2019, $75.0 million and $546.4 million of the outstanding balance were issued as short-term and long-term advances, respectively. The FHLB advances mature in 2033 with fixed interest rates ranging from 1.76% to 2.26% and are secured by loans and investments securities. Expected maturities could differ from contractual maturities because FHLB may have the right to call or HBI the right to prepay certain obligations.

Additionally, the Company had $1.11 billion and $1.26 billion at December 31, 2020 and 2019, respectively, in letters of credit under a FHLB blanket borrowing line of credit, which are used to collateralize public deposits at December 31, 2020 and 2019, respectively.

Maturities of borrowings with original maturities exceeding one year at December 31, 2020, are as follows (in thousands):

	By Contractual Maturity	By Call Date
2021	$ —	$ 400,000
2022	—	—
2023	—	—
2024	—	—
2025	—	—
Thereafter	400,000	—
	$ 400,000	$ 400,000

Additionally, the parent company took out a $20.0 million line of credit for general corporate purposes during 2015. The balance on this line of credit at December 31, 2020 and 2019 was zero.

11. Subordinated Debentures

Subordinated debentures consist of subordinated debt securities and guaranteed payments on trust preferred securities. As of December 31, 2020 and 2019, subordinated debentures were $370.3 million and $369.6 million, respectively.

Subordinated debentures at December 31, 2020 and 2019 contained the following components:

	As of December 31, 2020	As of December 31, 2019
	(In thousands)	
Trust preferred securities		
Subordinated debentures, issued in 2006, due 2036, fixed rate of 6.75% during the first five years and at a floating rate of 1.85% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	$ 3,093	$ 3,093
Subordinated debentures, issued in 2004, due 2034, fixed rate of 6.00% during the first five years and at a floating rate of 2.00% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	15,464	15,464
Subordinated debentures, issued in 2005, due 2035, fixed rate of 5.84% during the first five years and at a floating rate of 1.45% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	25,774	25,774
Subordinated debentures, issued in 2004, due 2034, fixed rate of 4.29% during the first five years and at a floating rate of 2.50% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	16,495	16,495
Subordinated debentures, issued in 2005, due 2035, floating rate of 2.15% above the three-month LIBOR rate, reset quarterly, currently callable without penalty	4,452	4,402
Subordinated debentures, issued in 2006, due 2036, fixed rate of 7.38% during the first five years and at a floating rate of 1.62% above the three-month LIBOR rate, reset quarterly, thereafter, currently callable without penalty	5,849	5,756
Subordinated debt securities		
Subordinated notes, net of issuance costs, issued in 2017, due 2027, fixed rate of 5.625% during the first five years and at a floating rate of 3.575% above the then three-month LIBOR rate, reset quarterly, thereafter, callable in 2022 without penalty	299,199	298,573
Total	$ 370,326	$ 369,557

Trust Preferred Securities. The Company holds trust preferred securities with a face amount of $73.3 million which are currently callable without penalty based on the terms of the specific agreements. The trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment subject to certain limitations. Distributions on these securities are included in interest expense. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in the Company’s subordinated debentures, the sole asset of each trust. The trust preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the subordinated debentures held by the trust. The Company wholly owns the common securities of each trust. Each trust’s ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related subordinated debentures. The Company’s obligations under the subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of each respective trust’s obligations under the trust securities issued by each respective trust.

The Bank acquired $12.5 million in trust preferred securities with a fair value of $9.8 million from the Stonegate acquisition. The difference between the fair value purchased of $9.8 million and the $12.5 million face amount, will be amortized into interest expense over the remaining life of the debentures. The associated subordinated debentures are redeemable, in whole or in part, prior to maturity at our option on a quarterly basis when interest is due and payable and in whole at any time within 90 days following the occurrence and continuation of certain changes in the tax treatment or capital treatment of the debentures.

Subordinated Debt Securities. On April 3, 2017, the Company completed an underwritten public offering of $300.0 million in aggregate principal amount of its 5.625% Fixed-to-Floating Rate Subordinated Notes due 2027 (the "Notes") for net proceeds, after underwriting discounts and issuance costs, of approximately $297.0 million. The Notes are unsecured, subordinated debt obligations and mature on April 15, 2027. From and including the date of issuance to, but excluding April 15, 2022, the Notes bear interest at an initial rate of 5.625% per annum. From and including April 15, 2022 to, but excluding the maturity date or earlier redemption, the Notes will bear interest at a floating rate equal to three-month LIBOR as calculated on each applicable date of determination plus a spread of 3.575%; provided, however, that in the event three-month LIBOR is less than zero, then three-month LIBOR shall be deemed to be zero.

The Company may, beginning with the interest payment date of April 15, 2022, and on any interest payment date thereafter, redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to but excluding the date of redemption. The Company may also redeem the Notes at any time, including prior to April 15, 2022, at its option, in whole but not in part, if: (i) a change or prospective change in law occurs that could prevent the Company from deducting interest payable on the Notes for U.S. federal income tax purposes; (ii) a subsequent event occurs that could preclude the Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) the Company is required to register as an investment company under the Investment Company Act of 1940, as amended; in each case, at a redemption price equal to 100% of the principal amount of the Notes plus any accrued and unpaid interest to but excluding the redemption date. The Notes provide the Company with additional Tier 2 regulatory capital to support expected future growth.

12. Income Taxes

The following is a summary of the components of the provision for income taxes for the years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Current:			
Federal	$ 62,362	$ 50,418	$ 68,990
State	20,644	16,690	22,838
Total current	83,006	67,108	91,828
Deferred:			
Federal	(14,839)	21,768	2,471
State	(4,912)	7,206	818
Total deferred	(19,751)	28,974	3,289
Income tax expense	$ 63,255	$ 96,082	$ 95,117

The reconciliation between the statutory federal income tax rate and effective income tax rate is as follows for the years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	2019	2018
Statutory federal income tax rate	21.00 %	21.00 %	21.00 %
Effect of non-taxable interest income	(1.29)	(0.83)	(0.83)
Stock compensation	0.33	0.10	(0.14)
State income taxes, net of federal benefit	3.50	3.71	4.30
Other	(0.76)	0.94	(0.28)
Effective income tax rate	22.78 %	24.92 %	24.05 %

During 2019, the Company made a strategic decision to surrender $47.5 million of its underperforming BOLI. When a BOLI contract is surrendered the gains within the policy become taxable as well as a 10% IRS penalty on the gain. As a result of this BOLI decision, the Company recorded a $3.7 million tax expense related to this transaction in 2019. The effective tax rate excluding the BOLI tax expense was 23.97% for the year ended December 31, 2019.

The types of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts that give rise to deferred income tax assets and liabilities, and their approximate tax effects, are as follows:

	December 31, 2020	December 31, 2019
	(In thousands)	
Deferred tax assets:		
Allowance for credit losses	$ 72,445	$ 25,829
Deferred compensation	4,741	4,416
Stock compensation	4,768	5,960
Non-accrual interest income	775	—
Real estate owned	620	1,080
Loan discounts	6,806	11,996
Tax basis premium/discount on acquisitions	5,101	6,921
Investments	502	327
Deposits	(33)	—
Other	5,855	8,940
Gross deferred tax assets	101,580	65,469
Deferred tax liabilities:		
Accelerated depreciation on premises and equipment	1,929	1,417
Unrealized gain on securities available-for-sale	15,072	5,717
Core deposit intangibles	7,056	8,419
FHLB dividends	2,711	2,608
Other	4,563	3,007
Gross deferred tax liabilities	31,331	21,168
Net deferred tax assets	$ 70,249	$ 44,301

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the states of Alabama, Arizona, Arkansas, California, Florida, Georgia, Illinois, Kentucky, Maryland, New York, Oklahoma, Missouri, Pennsylvania, Tennessee, Texas, and Wisconsin. The Company is no longer subject to U.S. Federal and state tax examinations by tax authorities for years before 2017.

The Company recognizes interest related to unrecognized tax benefits in interest expense and penalties in other non-interest expense. During the years ended December 31, 2020, 2019 and 2018, the Company did not recognize any significant interest or penalties.

13. Common Stock, Compensation Plans and Other

Common Stock

The Company's Restated Articles of Incorporation, as amended, authorize the issuance of up to 300,000,000 shares of common stock, par value $0.01 per share.

The Company also has the authority to issue up to 5,500,000 shares of preferred stock, par value $0.01 per share under the Company's Restated Articles of Incorporation.

Stock Repurchases

On January 18, 2019, the Company's Board of Directors authorized the repurchase of up to an additional 5,000,000 shares of its common stock under the previously approved stock repurchase program, which brought the remaining balance of authorized shares to repurchase to 19,752,000 shares.

During 2020, the Company utilized a portion of this stock repurchase program in order to repurchase a total of 1,533,560 shares with a weighted-average stock price of $16.72 per share. The 2020 earnings were used to fund the repurchases during the year. Shares repurchased under the program as of December 31, 2020 total 15,908,335 shares. The remaining balance available for repurchase was 3,843,665 shares at December 31, 2020.

On January 22, 2021, the Board of Directors of the Company authorized the repurchase of up to an additional 20,000,000 shares of the Company's common stock under this repurchase program.

Stock Compensation Plans

The Company has a stock option and performance incentive plan known as the Amended and Restated 2006 Stock Option and Performance Incentive Plan (the "Plan"). The purpose of the Plan is to attract and retain highly qualified officers, directors, key employees, and other persons, and to motivate those persons to improve the Company's business results. The Plan provides for the granting of incentive and non-qualified stock options and other equity awards, including the issuance of restricted shares. As of December 31, 2020, the maximum total number of shares of the Company's common stock available for issuance under the Plan was 13,288,000. At December 31, 2020, the Company had 1,730,394 shares of common stock remaining available for future grants and 4,983,895 shares of common stock reserved for issuance pursuant to outstanding awards under the Plan.

During the third quarter of 2018, the Company granted 1,452,000 stock options and 843,500 shares of restricted stock to certain employees under the HOMB $2.00 performance incentive program ("HOMB $2.00"). The purpose of the performance-based incentive plan is to motivate employees to help the Company achieve $2.00 of diluted earnings per share, as adjusted (non-GAAP), over a consecutive four-quarter period.

The intrinsic value of the stock options outstanding at December 31, 2020, 2019, and 2018 was $5.0 million, $6.0 million and $2.9 million, respectively. The intrinsic value of the stock options vested at December 31, 2020, 2019 and 2018 was $4.7 million, $5.3 million and $2.8 million, respectively.

The intrinsic value of the stock options exercised during 2020, 2019 and 2018 was $719,000, $332,000, and $2.7 million, respectively.

Total unrecognized compensation cost, net of income tax benefit, related to non-vested awards, which are expected to be recognized over the vesting periods, was approximately $8.3 million as of December 31, 2020.

The table below summarized the stock option transactions under the Plan at December 31, 2020, 2019 and 2018 and changes during the years then ended:

	2020		2019		2018	
	Shares (000)	**Weighted-average Exercisable Price**	**Shares (000)**	**Weighted-average Exercisable Price**	**Shares (000)**	**Weighted-average Exercisable Price**
Outstanding, beginning of year	3,411	$ 19.60	3,617	$ 19.62	2,274	$ 16.23
Granted	—	—	55	19.15	1,581	23.24
Forfeited/Expired	(76)	21.95	(163)	22.43	(37)	22.30
Exercised	(81)	10.61	(98)	15.21	(201)	9.25
Outstanding, end of year	3,254	19.77	3,411	19.60	3,617	19.62
Exercisable, end of year	1,537	$ 16.82	1,353	$ 16.03	1,167	$ 15.31

Stock-based compensation expense for stock-based compensation awards granted is based on the grant-date fair value. For stock option awards, the fair value is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company's employee stock options. There were no options granted during the year ended December 31, 2020. The weighted-average fair value of options granted during the year ended December 31, 2019 was $4.11 per share. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the weighted-average assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate, and expected life of options granted.

The assumptions used in determining the fair value of 2020, 2019 and 2018 stock option grants were as follows:

	For the Years Ended December 31,		
	2020	2019	2018
Expected dividend yield	Not Applicable	2.70%	2.05%
Expected stock price volatility	Not Applicable	26.13%	25.59%
Risk-free interest rate	Not Applicable	2.48%	2.82%
Expected life of options	Not Applicable	6.5 years	6.5 years

The following is a summary of currently outstanding and exercisable options at December 31, 2020:

	Options Outstanding			Options Exercisable	
Exercise Prices	Options Outstanding Shares (000)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable Shares (000)	Weighted-Average Exercise Price
$6.56 to $8.62	164	1.90	$ 8.32	164	$ 8.32
$9.54 to $14.71	200	3.17	12.13	200	12.13
$16.77 to $16.86	148	3.60	16.80	148	16.80
$17.12 to $17.36	125	4.23	17.13	125	17.13
$17.40 to $18.46	938	4.63	18.45	672	18.45
$18.50 to $20.16	63	7.83	19.21	19	19.53
$20.58 to $21.25	160	5.17	21.08	125	21.10
$21.31 to $22.22	100	7.30	22.22	40	22.22
$22.70 to $23.32	1,274	7.55	23.32	1	22.70
$23.51 to $25.96	82	6.49	25.60	43	25.90
	3,254			1,537	

The table below summarizes the activity for the Company’s restricted stock issued and outstanding at December 31, 2020, 2019 and 2018 and changes during the years then ended:

	2020	2019	2018
		(In thousands)	
Beginning of year	1,636	1,873	1,145
Issued	264	181	1,010
Vested	(453)	(340)	(233)
Forfeited	(76)	(78)	(49)
End of year	1,371	1,636	1,873
Amount of expense for twelve months ended	$ 6,824	$ 8,427	$ 7,232

Total unrecognized compensation cost, net of income tax benefit, related to non-vested restricted stock awards, which are expected to be recognized over the vesting periods, was approximately $17.7 million as of December 31, 2020.

14. Non-Interest Expense

The table below shows the components of non-interest expense for years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
		(In thousands)	
Salaries and employee benefits	$ 163,950	$ 154,177	$ 143,545
Occupancy and equipment	38,412	35,452	33,960
Data processing expense	19,032	16,161	14,428
Other operating expenses:			
Advertising	3,999	4,687	4,472
Merger and acquisition expenses	711	—	6,013
Amortization of intangibles	5,844	6,324	6,455
Electronic banking expense	8,477	7,525	7,622
Directors' fees	1,624	1,602	1,281
Due from bank service charges	975	1,081	1,003
FDIC and state assessment	6,494	4,468	8,558
Hurricane expense	—	897	470
Insurance	3,018	2,846	3,100
Legal and accounting	4,222	5,017	3,548
Other professional fees	8,150	10,213	6,453
Operating supplies	1,988	2,021	2,222
Postage	1,283	1,266	1,303
Telephone	1,302	1,210	1,405
Unfunded commitments	16,989	—	—
Other expense	17,904	20,840	18,165
Total other operating expenses	82,980	69,997	72,070
Total non-interest expense	$ 304,374	$ 275,787	$ 264,003

15. Employee Benefit Plans

401(k) and Employee Stock Ownership Plan

The Company has a retirement savings 401(k) plan in which substantially all employees may participate. The Company matches employees' contributions based on a percentage of salary contributed by participants. Effective February 2019, the Company adopted a combined 401(k) plan and employee stock ownership plan, named the Home BancShares, Inc. 401(k) and Employee Stock Ownership Plan, in place of its existing 401(k) plan. The Company filed a registration statement on Form S-8 with the Securities and Exchange Commission on February 22, 2019 to register 2,000,000 shares of the Company's common stock that participants may invest in through the plan. As of December 31, 2020, participants in the plan held approximately 1.1 million shares of the Company's stock. These shares are allocated to the individual employees that have elected to own stock within the plan. While the plan also allows for discretionary employer contributions, no discretionary contributions were made for the years ended 2020, 2019 and 2018. The Company's expense for the plan was approximately $2.3 million, $2.1 million and $1.9 million in 2020, 2019 and 2018, respectively, which is included in salaries and employee benefits expense.

Chairman's Retirement Plan

On April 20, 2007, the Company's Board of Directors approved a Chairman's Retirement Plan for John W. Allison, the Company's Chairman. The Chairman's Retirement Plan provides a supplemental retirement benefit of $250,000 a year for 10 consecutive years or until Mr. Allison's death, whichever occurs later. During 2011, Mr. Allison reached the age of 65 and became 100% vested in the plan. Therefore, he began receiving the supplemental retirement benefit due to him. He received $250,000 of this benefit during 2020, 2019 and 2018, respectively. An expense of $119,935, $129,903 and $139,107 was accrued for 2020, 2019 and 2018 for this plan, respectively.

16. Related Party Transactions

In the ordinary course of business, loans may be made to officers and directors and their affiliated companies at substantially the same terms as comparable transactions with other borrowers. At December 31, 2020 and 2019, related party loans were approximately $68.8 million and $63.0 million, respectively. New loans and advances on prior commitments made to the related parties were $8.4 million and $21.7 million for the years ended December 31, 2020 and 2019, respectively. Repayments of loans made by the related parties were $2.6 million and $15.3 million for the years ended December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, directors, officers, and other related interest parties had demand, non-interest-bearing deposits of approximately $1.5 million and $2.1 million, respectively, savings and interest-bearing transaction accounts of approximately $11.4 million and $6.5 million, respectively, and time certificates of deposit of approximately $385,000 and $484,000, respectively.

During each of 2020, 2019 and 2018, rent expense totaling approximately $115,000, $100,000 and $100,000, respectively, was paid to related parties.

17. Leases

The Company leases land and office facilities under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2042 and do not include renewal options based on economic factors that would have implied that continuation of the lease was reasonably certain. Certain leases provide for increases in future minimum annual rental payments as defined in the lease agreements. The leases generally include real estate taxes and common area maintenance ("CAM") charges in the rental payments. Short-term leases are leases having a term of twelve months or less. Upon adoption of ASU 2016-02, the Company elected the package of practical expedients whereby we did not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. In accordance with ASU 2018-11, the Company elected the practical expedient whereby we elected to not separate nonlease components from the associated lease component of our operating leases. As a result, we account for these components as a single component under Topic 842 since (i) the timing and pattern of transfer of the nonlease components and the associated lease component are the same and (ii) the lease component, if accounted for separately, would be classified as an operating lease. The Company recognizes short term leases on a straight-line basis and does not record a related ROU asset and liability for such leases. In addition, equipment leases were determined to be immaterial and a related ROU asset and liability for such leases is not recorded.

As of December 31, 2020, the balances of the right-of-use asset and lease liability were $40.2 million and $43.0 million, respectively. As of December 31, 2019, the balances of the right-of-use asset and lease liability were $44.3 million and $47.0 million, respectively. The right-of-use asset is included in bank premises and equipment, net, and the lease liability is included in accrued interest payable and other liabilities.

The minimum rental commitments under these noncancelable operating leases are as follows (in thousands) as of December 31, 2020 and 2019:

		December 31, 2020
2021	$	8,235
2022		6,486
2023		5,714
2024		5,262
2025		4,818
Thereafter		27,453
Total future minimum lease payments	$	57,968
Discount effect of cash flows		(14,922)
Present value of net future minimum lease payments	$	43,046

		December 31, 2019
2020	$	7,740
2021		6,774
2022		5,336
2023		4,760
2024		4,328
Thereafter		28,260
Total future minimum lease payments	$	57,198
Discount effect of cash flows		(10,193)
Present value of net future minimum lease payments	$	47,005

Additional information (dollar amounts in thousands):

	Year Ended December 31, 2020		Year Ended December 31, 2019	
Lease expense:				
Operating lease expense	$	8,138	$	8,217
Short-term lease expense		35		105
Variable lease expense		1,056		976
Total lease expense	$	9,229	$	9,298
Other information:				
Cash paid for amounts included in the measurement of lease liabilities	$	8,030	$	7,931
Weighted-average remaining lease term		10.19		10.70
Weighted-average discount rate		3.61%		3.62%

18. Significant Estimates and Concentrations of Credit Risks

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for credit losses and certain concentrations of credit risk are reflected in Note 5, while deposit concentrations are reflected in Note 8.

The Company's primary market areas are in Arkansas, Florida, South Alabama and New York. The Company primarily grants loans to customers located within these markets unless the borrower has an established relationship with the Company.

The diversity of the Company's economic base tends to provide a stable lending environment. Although the Company has a loan portfolio that is diversified in both industry and geographic area, a substantial portion of its debtors' ability to honor their contracts is dependent upon real estate values, tourism demand and the economic conditions prevailing in its market areas.

Although the Company has a diversified loan portfolio, at December 31, 2020 and 2019, commercial real estate loans represented 54.4% and 57.8% of total loans receivable, respectively, and 234.3% and 250.0% of total stockholders' equity, respectively. Residential real estate loans represented 18.5% and 21.2% of total loans receivable and 79.6% and 91.9% of total stockholders' equity at December 31, 2020 and 2019, respectively.

Approximately 72.9% of the Company's total loans and 76.4% of the Company's real estate loans as of December 31, 2020, are to borrowers whose collateral is located in Alabama, Arkansas, Florida and New York, the states in which the Company has its branch locations.

Beginning in the first quarter of 2020, the COVID-19 pandemic has negatively impacted the U.S. and global economy; disrupted U.S. and global supply chains; lowered equity market valuations; created significant volatility and disruption in financial markets; contributed to a decrease in the rates and yields on U.S. Treasury securities; resulted in ratings downgrades, credit deterioration, and defaults in many industries; increased demands on capital and liquidity; increased unemployment levels and decreased consumer confidence. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities, including those in our footprint. The pandemic has caused the Company, and could continue to cause the Company, to recognize credit losses in our loan portfolios and increases in our allowance for credit losses and could cause further volatility in the valuation of real estate and other collateral supporting loans. As a result of COVID-19, the unemployment rate projections significantly increased from January 1, 2020 to December 31, 2020 which had a significant impact on the Company's allowance for credit losses at December 31, 2020, under the loss driver analysis. In addition, the Company made the decision to increase reserves on deferred loans and loans 30 days or more past maturity, resulting from ongoing uncertainties related to the COVID-19 pandemic. As a result, the Company recorded $102.1 million in provision for credit losses on loans. The elevated unemployment rate projections and higher reserves on deferred loans and loans more than 30 days past maturity increased the allowance for credit losses to $245.5 million for the year ended December 31, 2020. In addition, the Company recorded a $17.0 million expense for the increase in the Company's unfunded commitments reserve for the year ended December 31, 2020 which was due to an increase in the expected funding percentages for the Company's unfunded commitments as well as an increase in the unemployment rate projections from January 1, 2020 to December 31, 2020, due to COVID-19. The financial statements have been prepared using values and information currently available to the Company. The Company is continuing to closely monitor the situation.

Any future volatility in the economy could cause the values of assets and liabilities recorded in the financial statements to change rapidly, resulting in material future adjustments in asset values, the allowance for credit losses and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

19. Commitments and Contingencies

In the ordinary course of business, the Company makes various commitments and incurs certain contingent liabilities to fulfill the financing needs of their customers. These commitments and contingent liabilities include lines of credit and commitments to extend credit and issue standby letters of credit. The Company applies the same credit policies and standards as they do in the lending process when making these commitments. The collateral obtained is based on the assessed creditworthiness of the borrower.

At December 31, 2020 and 2019, commitments to extend credit of $2.82 billion and $2.77 billion, respectively, were outstanding. A percentage of these balances are participated out to other banks; therefore, the Company can call on the participating banks to fund future draws. Since some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Outstanding standby letters of credit are contingent commitments issued by the Company, generally to guarantee the performance of a customer in third-party borrowing arrangements. The term of the guarantee is dependent upon the creditworthiness of the borrower, some of which are long-term. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments. The maximum amount of future payments the Company could be required to make under these guarantees at December 31, 2020 and 2019, is $56.1 million and $58.9 million, respectively.

The Company and/or its bank subsidiary have various unrelated legal proceedings, most of which involve loan foreclosure activity pending, which, in the aggregate, are not expected to have a material adverse effect on the financial position or results of operations or cash flows of the Company and its subsidiary.

20. Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Transfers of financial instruments between levels within the fair value hierarchy are recognized on the date management determines that the underlying circumstances or assumptions have changed.

Financial Assets and Liabilities Measured on a Recurring Basis

Available-for-sale securities are the only material instruments valued on a recurring basis which are held by the Company at fair value. The Company does not have any Level 1 securities. Primarily all of the Company's securities are considered to be Level 2 securities. These Level 2 securities consist primarily of U.S. government-sponsored enterprises, mortgage-backed securities plus state and political subdivisions. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. As of December 31, 2020 and 2019, Level 3 securities were immaterial. In addition, there were no material transfers between hierarchy levels during 2020, 2019 and 2018.

The Company reviews the prices supplied by the independent pricing service, as well as their underlying pricing methodologies, for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, the Company does not purchase investment portfolio securities with complicated structures. Pricing for the Company's investment securities is fairly generic and is easily obtained. The Company uses a third-party comparison pricing vendor in order to reflect consistency in the fair values of the investment securities sampled by the Company each quarter.

Financial Assets and Liabilities Measured on a Nonrecurring Basis

Impaired loans, which include individually evaluated loans that are collateral dependent, are the only material financial assets valued on a non-recurring basis which are held by the Company at fair value. Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the net realizable value of the collateral if the loan is collateral dependent. A portion of the allowance for credit losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for credit losses to require an increase, such increase is reported as a component of the provision for loan losses. The fair value of loans with specific allocated losses was $102.1 million and $74.2 million as of December 31, 2020 and 2019, respectively. This valuation is considered Level 3, consisting of appraisals of underlying collateral. The Company reversed $1.3 million and $922,520 of accrued interest receivable when impaired loans were put on non-accrual status during the years ended December 31, 2020 and 2019, respectively.

Nonfinancial Assets and Liabilities Measured on a Nonrecurring Basis

Foreclosed assets held for sale are the only material non-financial assets valued on a non-recurring basis which are held by the Company at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for credit losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 3 inputs based on appraisals of underlying collateral. As of December 31, 2020 and 2019, the fair value of foreclosed assets held for sale, less estimated costs to sell, was $4.4 million and $9.1 million, respectively.

Foreclosed assets held for sale with a carrying value of approximately $217,000 were remeasured during the year ended December 31, 2020, resulting in a write-down of approximately $167,000. Regulatory guidelines require the Company to reevaluate the fair value of foreclosed assets held for sale on at least an annual basis. The Company's policy is to comply with the regulatory guidelines.

The significant unobservable (Level 3) inputs used in the fair value measurement of collateral for collateral-dependent impaired loans and foreclosed assets primarily relate to customized discounting criteria applied to the customer's reported amount of collateral. The amount of the collateral discount depends upon the condition and marketability of the underlying collateral. As the Company's primary objective in the event of default would be to monetize the collateral to settle the outstanding balance of the loan, less marketable collateral would receive a larger discount. During the reported periods, collateral discounts ranged from 25% to 50% for commercial and residential real estate collateral.

Fair Values of Financial Instruments

The following table presents the estimated fair values of the Company's financial instruments. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

	December 31, 2020		
	Carrying Amount	Fair Value	Level
	(In thousands)		
Financial assets:			
Cash and cash equivalents	$ 1,263,788	$ 1,263,788	1
Loans receivable, net of impaired loans and allowance	10,873,120	11,292,004	3
Accrued interest receivable	60,528	60,528	1
FHLB, Federal Reserve & First National Banker's Bank stock; other equity investments	114,854	114,854	3
Financial liabilities:			
Deposits:			
Demand and non-interest bearing	$ 3,266,753	$ 3,266,753	1
Savings and interest-bearing transaction accounts	8,212,240	8,212,240	1
Time deposits	1,246,797	1,266,430	3
Securities sold under agreements to repurchase	168,931	168,931	1
FHLB and other borrowed funds	400,000	414,207	2
Accrued interest payable	5,925	5,925	1
Subordinated debentures	370,326	378,981	3

	December 31, 2019				
	Carrying Amount		Fair Value		Level
	(In thousands)				
Financial assets:					
Cash and cash equivalents	$	490,601	$	490,601	1
Loans receivable, net of impaired loans and allowance		10,693,391		10,680,071	3
Accrued interest receivable		45,086		45,086	1
FHLB, Federal Reserve & First National Banker's Bank stock; other equity investments		127,267		127,267	3
Financial liabilities:					
Deposits:					
Demand and non-interest bearing	$	2,367,091	$	2,367,091	1
Savings and interest-bearing transaction accounts		6,933,964		6,933,964	1
Time deposits		1,977,328		1,991,120	3
Federal funds purchased		5,000		5,000	1
Securities sold under agreements to repurchase		143,727		143,727	1
FHLB and other borrowed funds		621,439		621,742	2
Accrued interest payable		8,001		8,001	1
Subordinated debentures		369,557		380,237	3

21. Regulatory Matters

The Bank is subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. Arkansas bank regulators have specified that the maximum dividend limit state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. Since the Bank is also under supervision of the Federal Reserve, it is further limited if the total of all dividends declared in any calendar year by the Bank exceeds the Bank's net profits to date for that year combined with its retained net profits for the preceding two years. During 2020, the Company requested approximately $183.7 million in regular dividends from its banking subsidiary.

The Company's banking subsidiary is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in the consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total, common Tier 1 equity and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2020, the Company meets all capital adequacy requirements to which it is subject.

On December 21, 2018, the federal banking agencies issued a joint final rule to revise their regulatory capital rules to permit bank holding companies and banks to phase-in, for regulatory capital purposes, the day-one impact of the new CECL accounting rule on retained earnings over a period of three years. As part of its response to the impact of COVID-19, on March 27, 2020, the federal banking regulatory agencies issued an interim final rule that provided the option to temporarily delay certain effects of CECL on regulatory capital for two years, followed by a three-year transition period. The interim final rule allows bank holding companies and banks to delay for two years 100% of the day-one impact of adopting CECL and 25% of the cumulative change in the reported allowance for credit losses since adopting CECL. The Company has elected to adopt the interim final rule, which is reflected in the risk-based capital ratios presented below.

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision in “Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems” and certain provisions of the Dodd-Frank Act (“Basel III”). Basel III applies to all depository institutions, bank holding companies with total consolidated assets of $500 million or more, and savings and loan holding companies. Basel III became effective for the Company and its bank subsidiary on January 1, 2015. The capital conservation buffer requirement began being phased in beginning January 1, 2016 at the 0.625% level and increased by 0.625% on each subsequent January 1, until it reached 2.5% on January 1, 2019 when the phase-in period ended, and the full capital conservation buffer requirement became effective.

Basel III permanently grandfathers trust preferred securities and other non-qualifying capital instruments that were issued and outstanding as of May 19, 2010 in the Tier 1 capital of bank holding companies with total consolidated assets of less than $15 billion as of December 31, 2009. The rule phases out of Tier 1 capital these non-qualifying capital instruments issued before May 19, 2010 by all other bank holding companies. Because our total consolidated assets were less than $15 billion as of December 31, 2009, our outstanding trust preferred securities continue to be treated as Tier 1 capital. However, now that the Company has exceeded $15 billion in assets, if the Company acquires another financial institution in the future, then the Tier 1 treatment of the Company’s outstanding trust preferred securities will be phased out, but those securities will still be treated as Tier 2 capital.

Basel III amended the prompt corrective action rules to incorporate a “common equity Tier 1 capital” requirement and to raise the capital requirements for certain capital categories. In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization is required to have at least a 4.5% “common equity Tier 1 risk-based capital” ratio, a 4% “Tier 1 leverage capital” ratio, a 6% “Tier 1 risk-based capital” ratio and an 8% “total risk-based capital” ratio.

The Federal Reserve Board’s risk-based capital guidelines include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. Under Basel III, the criteria for a well-capitalized institution are now: a 6.5% “common equity Tier 1 risk-based capital” ratio, a 5% “Tier 1 leverage capital” ratio, an 8% “Tier 1 risk-based capital” ratio, and a 10% “total risk-based capital” ratio. As of December 31, 2020, the Bank met the capital standards for a well-capitalized institution. The Company’s “common equity Tier 1 risk-based capital” ratio, “Tier 1 leverage capital” ratio, “Tier 1 risk-based capital” ratio, and “total risk-based capital” ratio were 13.42%, 10.85%, 14.01%, and 17.75%, respectively, as of December 31, 2020.

The Company's actual capital amounts and ratios along with the Company's bank subsidiary are presented in the following table.

	Actual		Minimum Capital Requirement – Basel III		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
As of December 31, 2020						
Common equity Tier 1 capital ratios:						
Home BancShares	$ 1,615,683	13.42%	$ 842,741	7.00%	$ N/A	N/A%
Centennial Bank	1,804,392	15.04	839,810	7.00	779,824	6.50
Leverage ratios:						
Home BancShares	$ 1,686,810	10.85%	$ 621,884	4.00%	$ N/A	N/A%
Centennial Bank	1,804,392	11.61	621,668	4.00	777,085	5.00
Tier 1 capital ratios:						
Home BancShares	$ 1,686,810	14.01%	$ 1,023,328	8.50%	$ N/A	N/A%
Centennial Bank	1,804,392	15.04	1,019,769	8.50	959,783	8.00
Total risk-based capital ratios:						
Home BancShares	$ 2,137,238	17.75%	$ 1,264,111	10.50%	$ N/A	N/A%
Centennial Bank	1,955,299	16.30	1,259,548	10.50	1,199,570	10.00
As of December 31, 2019						
Common equity Tier 1 capital ratios:						
Home BancShares	$ 1,500,756	12.44%	$ 844,665	7.00%	$ N/A	N/A%
Centennial Bank	1,744,543	14.47	843,863	7.00	783,587	6.50
Leverage ratios:						
Home BancShares	$ 1,571,740	11.27%	$ 557,993	4.00%	$ N/A	N/A%
Centennial Bank	1,744,543	12.51	557,977	4.00	697,471	5.00
Tier 1 capital ratios:						
Home BancShares	$ 1,571,740	13.03%	$ 1,025,665	8.50%	$ N/A	N/A%
Centennial Bank	1,744,543	14.47	1,024,691	8.50	964,415	8.00
Total risk-based capital ratios:						
Home BancShares	$ 1,972,435	16.35%	$ 1,266,998	10.50%	$ N/A	N/A%
Centennial Bank	1,846,665	15.32	1,265,797	10.50	1,205,521	10.00

22. Additional Cash Flow Information

In connection with the LH-Finance acquisition, accounted for using the purchase method, the Company acquired approximately $409.1 million in assets, including $407.4 million in loans as of February 29, 2020, and paid $421.2 million in cash.

In connection with the SPF acquisition, accounted for using the purchase method, the Company acquired approximately $377.0 million in assets, including $376.2 million in loans, issued 1,250,000 shares of its common stock valued at approximately $28.2 million as of June 30, 2018, and paid $377.4 million in cash.

The following is summary of the Company's additional cash flow information during the years ended December 31:

	2020	2019	2018
	(In thousands)		
Interest paid	$ 95,483	$ 155,661	$ 121,047
Income taxes paid	77,838	89,692	69,282
Assets acquired by foreclosure	2,639	9,340	11,217

23. Condensed Financial Information (Parent Company Only)

Condensed Balance Sheets

(In thousands)	December 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents	$ 152,718	$ 110,597
Investment securities	13,037	—
Investments in wholly-owned subsidiaries	2,797,541	2,756,901
Investments in unconsolidated subsidiaries	2,201	2,201
Premises and equipment	—	1,737
Other assets	15,825	15,197
Total assets	$ 2,981,322	$ 2,886,633
Liabilities		
Subordinated debentures	$ 370,326	$ 369,557
Other liabilities	5,238	5,545
Total liabilities	375,564	375,102
Stockholders' Equity		
Common stock	1,651	1,664
Capital surplus	1,520,617	1,537,091
Retained earnings	1,039,370	956,555
Accumulated other comprehensive income	44,120	16,221
Total stockholders' equity	2,605,758	2,511,531
Total liabilities and stockholders' equity	$ 2,981,322	$ 2,886,633

Condensed Statements of Income

(In thousands)	Years Ended December 31, 2020	2019	2018
Income			
Dividends from equity securities	$ 385	$ —	$ —
Dividends from banking subsidiary	183,711	232,532	217,841
Other (loss) income	(1,588)	125	599
Total income	182,508	232,657	218,440
Expenses	33,346	36,798	40,266
Income before income taxes and equity in undistributed net income of subsidiaries	149,162	195,859	178,174
Tax benefit for income taxes	8,589	9,703	10,873
Income before equity in undistributed net income of subsidiaries	157,751	205,562	189,047
Equity in undistributed net income of subsidiaries	56,697	83,977	111,356
Net income	$ 214,448	$ 289,539	$ 300,403

Condensed Statements of Cash Flows

(In thousands)	Years Ended December 31, 2020	2019	2018
Cash flows from operating activities			
Net income	$ 214,448	$ 289,539	$ 300,403
Items not requiring (providing) cash			
Depreciation	216	289	301
Amortization	769	796	788
Share-based compensation	8,607	10,719	9,084
Decrease in value of equity securities	1,978		
Gain on assets	(320)	(18)	(111)
Equity in undistributed income of subsidiaries	(56,697)	(83,977)	(111,356)
Changes in other assets	(628)	(2,006)	(661)
Changes in other liabilities	(307)	(504)	(2,595)
Net cash provided by operating activities	168,066	214,838	195,853
Cash flows from investing activities			
Proceeds from sale of premises and equipment, net	1,841	508	4,262
Capital contribution to subsidiary	—	—	(881)
Purchases of equity securities	(15,015)	—	—
Proceeds from sale of equity securities	—	—	3,768
Net cash (used in) provided by investing activities	(13,174)	508	7,149
Cash flows from financing activities			
Proceeds from exercise of stock options	595	1,407	1,454
Repurchase of common stock	(25,689)	(84,888)	(104,276)
Dividends paid	(87,677)	(85,627)	(79,867)
Net cash used in financing activities	(112,771)	(169,108)	(182,689)
Increase in cash and cash equivalents	42,121	46,238	20,313
Cash and cash equivalents, beginning of year	110,597	64,359	44,046
Cash and cash equivalents, end of year	$ 152,718	$ 110,597	$ 64,359

24. Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new ASU, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The new standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and should be applied on a prospective basis. Early adoption was permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The Company has goodwill from prior business combinations and performs an annual impairment test or more frequently if changes or circumstances occur that would more-likely-than-not reduce the fair value of the reporting unit below its carrying value. During 2019, the Company performed its impairment assessment and determined the fair value of the aggregated reporting units exceed the carrying value, such that the Company's goodwill was not considered impaired. The Company adopted the guidance effective January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures. The current accounting policies and processes have not changed, except for the elimination of the Step 2 analysis.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope Exception.* Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating *Topic 480, Distinguishing Liabilities from Equity*, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable non-controlling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018. The Company adopted the guidance effective January 1, 2019, and its adoption did not have a significant impact on the Company's financial position or financial statement disclosures.

In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which was issued to address the income tax accounting treatment of the stranded tax effects within other comprehensive income due to the prohibition of backward tracing due to an income tax rate change that was initially recorded in other comprehensive income. This issue came about from the enactment of the TCJA on December 22, 2017 that changed the Company's federal income tax rate from 35% to 21%. The ASU changed current accounting whereby an entity may elect to reclassify the stranded tax effect from accumulated other comprehensive income to retained earnings. The amendments in this ASU are effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. Adoption of this ASU is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the tax laws or rates were recognized. The Company adopted the guidance effective January 1, 2019, and its adoption resulted in a $459,000 reclassification between retained earnings and accumulated other comprehensive income.

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.* The ASU expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The guidance also specifies that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company adopted the guidance effective January 1, 2019, and its adoption did not have a significant impact on our financial position or financial statement disclosures

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The new guidance modifies disclosure requirements related to fair value measurement. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. The Company adopted the guidance effective January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract,* that amends the definition of a hosting arrangement and requires a customer in a hosting arrangement that is a service contract to capitalize certain implementation costs as if the arrangement was an internal-use software project. The internal-use software guidance states that only qualifying costs incurred during the application development stage can be capitalized. The effective date is for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Entities have the option to apply the guidance prospectively to all implementation costs incurred after the date of adoption or retrospectively in accordance with the applicable guidance. The Company adopted the guidance effective January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In October 2018, the FASB issued ASU 2018-16*, Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes.* The amendments in this Update permit the OIS rate based on SOFR as a U.S. benchmark interest rate. Including the OIS rate based on SOFR as an eligible benchmark interest rate during the early stages of the marketplace transition will facilitate the LIBOR to SOFR transition and provide sufficient lead time for entities to prepare for changes to interest rate risk hedging strategies for both risk management and hedge accounting purposes. For entities that have not already adopted ASU 2017-12, the amendments in this Update are required to be adopted concurrently with the amendments in ASU 2017-12. The Company adopted the guidance concurrently with ASU 2017-12 effective January 1, 2019, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses.* The amendment clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases. The effective date and transition requirements for the amendments in this update are the same as the effective dates and transition requirements in ASU 2016-13.

In December 2018, the FASB issued ASU 2018-20, *Narrow-Scope Improvements for Lessors.* The amendments in this update permit lessors, as an accounting policy election, to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. Instead, those lessors will account for those costs as if they are lessee costs. Consequently, a lessor making this election will exclude from the consideration in the contract and from variable payments not included in the consideration in the contract all collections from lessees of taxes within the scope of the election and will provide certain disclosures. The amendments in this update related to certain lessor costs require lessors to exclude from variable payments, and therefore revenue, lessor costs paid by lessees directly to third parties. The amendments also require lessors to account for costs excluded from the consideration of a contract that are paid by the lessor and reimbursed by the lessee as variable payments. A lessor records reimbursed costs as revenue. The amendments in this Update related to recognizing variable payments for contracts with lease and non-lease components require lessors to allocate certain variable payments to the lease and non-lease components when the changes in facts and circumstances on which the variable payment is based occur. After the allocation, the amount of variable payments allocated to the lease components will be recognized as income in profit or loss in accordance with Topic 842, while the amount of variable payments allocated to non-lease components will be recognized in accordance with other Topics, such as Topic 606. The Company adopted the guidance effective January 1, 2019, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*. The amendments in this Update reinstate the exception in Topic 842 for lessors that are not manufacturers or dealers. Specifically, those lessors will use their cost, reflecting any volume or trade discounts that may apply, as the fair value of the underlying asset. However, if significant time lapses between the acquisition of the underlying asset and lease commencement, those lessors will be required to apply the definition of *fair value* (exit price) in Topic 820. In addition, the amendments in this Update address the concerns of lessors within the scope of Topic 942 about where "principal payments received under leases" should be presented. Specifically, lessors that are depository and lending institutions within the scope of Topic 942 will present all "principal payments received under leases" within investing activities. Finally, the amendments in this Update clarify the FASB's original intent by explicitly providing an exception to the paragraph 250-10-50-3 interim disclosure requirements in the Topic 842 transition disclosure requirements. The effective date for the amendments in this update is for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company adopted the guidance effective January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments.* The amendments clarify certain aspects of the accounting for credit losses, hedging activities, and financial instruments (addressed by ASUs 2016-13, 2017-12 and 2016-01, respectively). The amendments made to the provisions of ASU 2016-13 are related to accrued interest, transfers between classifications or categories for loans and debt securities, recoveries, reinsurance recoverables, projections of interest rate environments for variable-rate financial instruments, cost to sell financial assets when foreclosure is probable, consideration of expected prepayments when determining the effective interest rate, amortized cost basis of line of credit arrangements that are converted to term loans and extension and renewal options that are not unconditionally cancelable by the entity. The effective date and transition requirements for the amendments in this update are the same as the effective dates and transition requirements in ASU 2016-13. The significant amendments made to the provisions of ASU 2017-12 are related to partial-term fair value hedges of interest rate risk, amortization of fair value hedge basis adjustments, disclosure of fair value hedge basis adjustments, consideration of the hedged contractually specified interest rate under the hypothetical derivative method, application of a first-payments-received cash flow hedging technique to overall cash flows on a group of variable interest payments and transition guidance for reclassifying prepayable debt securities from HTM to available-for-sale. The amendments to ASU 2017-12 are effective as of the beginning of the first annual reporting period beginning after the date of issuance of ASU 2019-04. The amendments made to the provisions of ASU 2016-01 indicate that the measurement alternative for equity securities without readily determinable fair values represent a nonrecurring fair value measurement under ASC 820, and therefore, such securities should be remeasured at fair value when an entity identifies an orderly transaction "for an identical or similar investment of the same issuer." The amendments related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted the guidance effective January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In May 2019, the FASB issued ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief*. The amendments provide transition relief for entities adopting the Board's credit losses standard, ASU 2016-13. Specifically, ASU 2019-05 amends ASU 2016-13 to allow companies to irrevocably elect, upon adoption of ASU 2016-13, the fair value option for financial instruments that were previously recorded at amortized cost and are within the scope of the credit losses guidance in ASC 326-20, are eligible for the fair value option under ASC 825-10, and are not held-to-maturity debt securities. The amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted the standard guidance January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses.* The amendments clarify that the allowance for credit losses for purchased financial assets with credit deterioration should include expected recoveries of amounts previously written off and expected to be written off by the entity and should not exceed the aggregate of amounts of the amortized cost basis previously written off and expected to be written off by an entity. The amendments also clarify that when a method other than a discounted cash flow method is used to estimate expected credit losses, the expected recoveries should not include any amounts that result in an acceleration of the noncredit discount. An entity may include increases in expected cash flows after acquisition. Also, the amendments provide transition relief by permitting entities an accounting policy election to adjust the effective interest rate on existing TDRs using prepayment assumptions on the date of adoption of Topic 326 rather than the prepayment assumption in effect immediately before the restructuring. The amendments extend the disclosure relief for accrued interest receivable balances to additional relevant disclosures involving amortized cost basis. In addition, the amendments clarify that an entity should assess whether it reasonably expects the borrower will be able to continually replenish collateral securing financial asset to apply the practical expedient. The entity applying the practical expedient should estimate the expected credit losses for any difference between the amount of the amortized cost basis that is greater than the fair value of the collateral that is greater than the fair value of the collateral securing the financial asset. An entity may determine that the expectation of nonpayment for the amount of the amortized cost basis equal to the fair value of the collateral securing the financial asset is zero. The amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted the standard guidance January 1, 2020, and its adoption did not have a significant impact on our financial position or financial statement disclosures.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* The amendments in the update simplify the accounting for income taxes by removing the exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items and the exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. The amendments in the update also simplify the accounting for income taxes by requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction, specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; however, an entity may elect to do so on an entity-by-entity basis for a legal entity that is both not subject to tax and disregarded by the taxing authority. The amendments require that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.

In March 2020, the FASB issued ASU 2020-04*, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting."* ASU 2020-04 provides optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. ASU 2020-04 was effective upon issuance and generally can be applied through December 31, 2022.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. Section 4013 of the CARES Act provides financial institutions the temporary option to not apply ASC Subtopic 310-40*, Receivables—Troubled Debt Restructurings by Creditors*, to certain loan modifications related to COVID-19 made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after termination of the President's national emergency declaration for COVID-19. On December 28, 2020, an extension of section 4013 of the CARES Act, provided institutions with an extension of the temporary option to not apply ASC Subtopic 310-40 until January 1, 2022. Further, financial institutions do not need to determine impairment associated with certain loan concessions that would otherwise have been required for TDRs (e.g., interest rate concessions, payment deferrals, or loan extensions). The Company relied on Section 4013 of the CARES Act in accounting for loan modifications in the 4^{th} quarter 2020. The Company granted loan modification to 56 loans for a total of $330.7 million. Of the 56 loans currently on deferment, 51 of the loans totaling $271.1 million chose interest only deferment and have returned to paying interest monthly, with the majority of these loans having modifications for 18 to 24 month interest only payments with a return to full principal and interest payments at the end of the modification term.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No items are reportable.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

An evaluation as of the end of the period covered by this annual report was carried out under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our “disclosure controls and procedures,” which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods and that such information is accumulated and communicated to the company’s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective. As a result of this evaluation, there were no significant changes in the Company’s disclosure controls or in other factors that could significantly affect those controls subsequent to the date of evaluation.

Management’s Report on Internal Control Over Financial Reporting

The information required by Item 308(a) and 308(b) of Regulation S-K regarding management’s annual report on internal control over financial reporting and the audit report of the independent registered public accounting firm is contained in “Item 8. Financial Statements and Supplementary Data” and is incorporated herein by this reference.

Changes in Internal Control Over Financial Reporting

The Company’s management, including the Company’s Chief Executive Officer and its Chief Financial Officer regularly review our internal controls and procedures and make changes intended to ensure the quality of our financial reporting. There were no changes in our internal control over financial reporting during the Company’s fourth quarter of its 2020 fiscal year that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. OTHER INFORMATION

No items are reportable.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 15, 2021, to be filed pursuant to Regulation 14A.

Item 11. EXECUTIVE COMPENSATION

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 15, 2021, to be filed pursuant to Regulation 14A.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 15, 2021, to be filed pursuant to Regulation 14A, except as set forth below.

We currently maintain a compensation plan, the Home BancShares, Inc. Amended and Restated 2006 Stock Option and Performance Incentive Plan, which provides for the issuance of stock-based compensation to directors, officers and other employees. This plan has been approved by the stockholders. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plan as of December 31, 2020:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by the stockholders	3,253,501	$ 19.77	1,730,394
Equity compensation plans not approved by the stockholders	—	—	—

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 15, 2021, to be filed pursuant to Regulation 14A.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated herein by reference from the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held April 15, 2021, to be filed pursuant to Regulation 14A.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

(a) 1 and 2. Financial Statements and any Financial Statement Schedules

The financial statements and financial statement schedules listed in the accompanying index to the consolidated financial statements and financial statement schedules are filed as part of this report.

3. Listing of Exhibits.

Exhibit No.	
2.1	Agreement and Plan of Merger by and among Home BancShares, Inc., Centennial Bank, Giant Holdings, Inc., and Landmark Bank, N.A., dated November 7, 2016. (incorporated by reference to Exhibit 2.1 of Home BancShares's Current Report on Form 8-K/A filed on November 10, 2016)
2.2	Amendment to Agreement and Plan of Merger by and among Home BancShares, Inc., Centennial Bank, Giant Holdings, Inc., and Landmark Bank, N.A., dated December 7, 2016. (incorporated by reference to Appendix A of Home BancShares's registration statement on Form S-4 (File No. 333-214957), as amended)
2.3	Acquisition Agreement by and between Home BancShares, Inc. and Bank of Commerce Holdings, Inc., dated December 1, 2016 (incorporated by reference to Exhibit 2.1 of Home BancShares's Current Report on Form 8-K filed on December 7, 2016)
2.4	Agreement and Plan of Merger by and among Home BancShares, Inc., Centennial Bank and Stonegate Bank, dated March 27, 2017 (incorporated by reference to Exhibit 2.1 of Home BancShares's Current Report on Form 8-K filed on March 27, 2017)
3.1	Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares's registration statement on Form S-1 (File No. 333-132427), as amended)
3.2	Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.2 of Home BancShares's registration statement on Form S-1 (File No. 333-132427), as amended)
3.3	Second Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.3 of Home BancShares's registration statement on Form S-1 (File No. 333-132427), as amended)
3.4	Third Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.4 of Home BancShares's registration statement on Form S-1 (File No. 333-132427), as amended)
3.5	Fourth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed on August 8, 2007)
3.6	Fifth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 4.6 of Home BancShares's registration statement on Form S-3 (File No. 333-157165))
3.7	Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, filed with the Secretary of State of the State of Arkansas on January 14, 2009 (incorporated by reference to Exhibit 3.1 of Home BancShares's Current Report on Form 8-K, filed on January 21, 2009)
3.8	Seventh Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares's Current Report on Form 8-K, filed on April 19, 2013)
3.9	Eighth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares Current Report on Form 8-K filed on April 22, 2016)
3.10	Ninth Amendment to the Restated Articles of Incorporation of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares's Current Report on Form 8-K, filed on April 23, 2019)
3.11	Amended and Restated Bylaws of Home BancShares, Inc. (incorporated by reference to Exhibit 3.1 of Home BancShares's Current Report on Form 8-K, filed on January 28, 2021)
4.1	Specimen Stock Certificate representing Home BancShares, Inc. Common Stock (incorporated by reference to Exhibit 4.6 of Home BancShares's registration statement on Form S-1 (File No. 333-132427), as amended)

4.2	Description of Capital Stock of Home BancShares, Inc.*
4.3	Instruments defining the rights of security holders including indentures. Home BancShares hereby agrees to furnish to the SEC upon request copies of instruments defining the rights of holders of long-term debt of Home BancShares and its consolidated subsidiaries. No issuance of debt exceeds ten percent of the assets of Home BancShares and its subsidiaries on a consolidated basis.
10.1	Amended and Restated 2006 Stock Option and Performance Incentive Plan of Home BancShares, Inc. (incorporated by reference to Exhibit 10.1 of Home BancShares's Current Report on Form 8-K filed on March 30, 2012)
10.2	Amendment to Amended and Restated 2006 Stock Option and Performance Incentive Plan of Home BancShares, Inc. (incorporated by reference to Exhibit 10.1 of Home BancShares's Quarterly Report on Form 10-Q for the period ended June 30, 2015, filed on August 6, 2015)
10.3	Amendment to Amended and Restated 2006 Stock Option and Performance Incentive Plan of Home BancShares, Inc. (incorporated by reference to Exhibit 10.1 of Home BancShares's Current Report on Form 8-K filed on April 22, 2016)
10.4	Amendment to Amended and Restated 2006 Stock Option and Performance Incentive Plan of Home BancShares, Inc. (incorporated by reference to Exhibit 10.1 of Home BancShares's Current Report on Form 8-K filed on April 20, 2018)
10.5	Amendment to Amended and Restated 2006 Stock Option and Performance Incentive Plan of Home BancShares, Inc. (incorporated by reference to Exhibit 10.5 of Home BancShares's Quarterly Report on Form 10-Q for the period ended March 31, 2018, filed on May 7, 2018)
10.6	Form of Change in Control Agreement by and between Home BancShares, Inc., Centennial Bank and Executive Officer (incorporated by reference to Exhibit 10.1 of Home BancShares's Current Report on Form 8-K filed on August 10, 2020)
21.1	Subsidiaries of the Registrant.*
23.1	Consent of Independent Registered Public Accounting Firm*
31.1	CEO Certification Pursuant Rule 13a-14(a)/15d-14(a)*
31.2	CFO Certification Pursuant Rule 13a-14(a)/15d-14(a)*
32.1	CEO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes – Oxley Act of 2002*
32.2	CFO Certification Pursuant 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes – Oxley Act of 2002*
99.1	Asset Purchase Agreement by and among Home BancShares, Inc., Centennial Bank, and Union Bank & Trust, dated June 29, 2018 (incorporated by reference to Exhibit 99.3 of Home BancShares's Current Report on Form 8-K/A filed on July 6, 2018)
101.INS	Inline XBRL Instance Document*
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith

Item 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOME BANCSHARES, INC.

By:/s/ John W. Allison
John W. Allison
Chairman, Chief Executive Officer and President

Date: February 26, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated as of February 26, 2021.

/s/ John W. Allison
John W. Allison
Chairman of the Board of Directors, Chief Executive Officer and President
(Principal Executive Officer)

/s/ Brian S. Davis
Brian S. Davis
Chief Financial Officer, Treasurer and Director
(Principal Financial Officer)

/s/ Milburn Adams
Milburn Adams
Director

/s/ Robert H. Adcock, Jr.
Robert H. Adcock, Jr.
Director

/s/ Richard H. Ashley
Richard H. Ashley
Director

/s/ Mike Beebe
Mike Beebe
Director

/s/ Jack E. Engelkes
Jack E. Engelkes
Vice Chairman of the Board of Directors

/s/ Tracy M. French
Tracy M. French
Director

/s/ Karen Garrett
Karen Garrett
Director

/s/ James G. Hinkle
James G. Hinkle
Director

/s/ Alex R. Lieblong
Alex R. Lieblong
Director

/s/ Thomas J. Longe
Thomas J. Longe
Director

/s/ Jim Rankin, Jr.
Jim Rankin, Jr.
Director

/s/ Larry W. Ross
Larry W. Ross
Director

/s/ Donna J. Townsell
Donna J. Townsell
Director

/s/ Jennifer C. Floyd
Jennifer C. Floyd
Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 4.2

DESCRIPTION OF CAPITAL STOCK

The following is a description of the capital stock of Home BancShares, Inc. (the "Company") and certain provisions of the Company's Restated Articles of Incorporation, as amended ("Articles"), Restated Bylaws, as amended ("Bylaws"), and certain provisions of applicable law. The following is only a summary and is qualified by applicable law and by the provisions of the Company's Articles and Bylaws, copies of which have been filed with the Securities and Exchange Commission ("SEC") and are also available upon request from the Company.

General

Under our Restated Articles of Incorporation, as amended, we have authority to issue up to 300,000,000 shares of common stock, par value $0.01 per share, and up to 5,500,000 shares of preferred stock, par value $0.01 per share. Each share of our common stock has the same relative rights as, and is identical in all respects to, each other share of our common stock.

As of December 31, 2020, 165,095,252 shares of our common stock were issued and outstanding, and 4,983,895 shares of common stock were reserved for issuance pursuant to the Company's stock option and performance incentive plan. Our common stock is listed on the NASDAQ Global Select Market. The outstanding shares of our common stock are validly issued, fully paid and non-assessable.

As of December 31, 2020, no shares of our preferred stock were issued and outstanding.

Common Stock

Voting Rights. Holders of our common stock are entitled to one vote per share on all matters submitted to a vote of shareholders. Holders of our common stock do not have cumulative voting rights.

Dividend Rights. Holders of our common stock are entitled to dividends when, as, and if declared by our board of directors out of funds legally available for the payment of dividends. Holders of any series of preferred stock we may issue in the future may have a priority over holders of common stock with respect to dividends. The payment of dividends is subject to government regulation, in that regulatory authorities may prohibit banks and bank holding companies from paying dividends in a manner that would constitute an unsafe or unsound banking practice. In addition, a bank may not pay cash dividends if doing so would reduce the amount of its capital below that necessary to meet minimum regulatory capital requirements. State laws also limit a bank's ability to pay dividends. Accordingly, the dividend restrictions imposed on our bank subsidiary by statute or regulation effectively may limit the amount of dividends we can pay.

Liquidation and Dissolution. In the event of the liquidation, dissolution and winding up of the Company, the holders of our common stock are entitled to receive ratably all of the assets of the Company available for distribution after satisfaction of all liabilities of the Company, subject to the rights of the holders of any of the Company's preferred shares that may be issued from time to time.

Other Rights. Holders of our common stock have no preferential or preemptive rights with respect to any securities of Home BancShares, and there are no conversion rights or redemption or sinking fund provisions applicable to our common stock.

Restrictions on Ownership. The Bank Holding Company Act (the "BHCA") requires any "bank holding company," as defined in the BHCA, to obtain the approval of the Board of Governors of the Federal Reserve prior to the acquisition of 5% or more of our common stock. Any "company," as defined in the BHCA, other than a bank holding company would be required to obtain Federal Reserve approval before acquiring "control" of us. "Control" generally means (i) the ownership or control of 25% or more of a class of voting securities, (ii) the ability to elect a majority of the directors or (iii) the ability otherwise to exercise a controlling influence over our management and policies. A holder of 25% or more of our outstanding common stock, other than an individual, is subject to regulation and supervision as a bank holding company under the BHCA. In addition, under the Change in Bank Control Act of 1978, as amended, and the Federal Reserve's regulations thereunder, any person, either individually or acting through or in concert with one or more persons, is required to provide notice to the Federal Reserve prior to acquiring, directly or indirectly, 10% or more of our outstanding common stock.

Modification of Rights. Our board of directors acting by a majority vote of the members present, without shareholder approval, may amend our Bylaws and may issue shares of our preferred stock under terms determined by the board of directors as described below under "Preferred Stock." Rights of holders of our common stock may not otherwise be modified by less than a majority vote of the common stock outstanding. Additionally, under the Arkansas Business Corporation Act of 1987, a majority vote is required for the approval of a merger or consolidation with another corporation, and for the sale of all or substantially all of our assets and liquidation or dissolution of the Company.

Transfer Agent. The transfer agent and registrar for our common stock is Computershare, 150 Royall Street, Canton, Massachusetts 02021.

Preferred Stock

The 5,500,000 shares of our preferred stock, par value $0.01 per share, are typically referred to as "blank check" preferred stock. This term means that these shares of preferred stock may be issued with such preferences, limitations, relative rights, and terms as determined by our board of directors. As such, the board of directors can, without shareholder approval, issue preferred stock with voting, dividend, liquidation and conversion rights that could dilute the voting strength of the holders of the common stock and may assist management in impeding an unfriendly takeover or attempted change in control.

The Company has no present plans to issue any shares of its preferred stock.

Exhibit 21.1

HOME BANCSHARES, INC.
DIRECT AND INDIRECT SUBSIDIARIES
AS OF DECEMBER 31, 2020

Name of Subsidiary	State of Incorporation/ Organization
Centennial Bank	Arkansas
Centennial Insurance Agency, Inc. d/b/a Insurance Mart, Inc.	Arkansas
Cook Insurance Agency, Inc.	Florida
Freedom Insurance Group, Inc.	Arkansas
Centennial AL Holdings, Inc.	Alabama
Centennial NY Holdings, Inc.	New York
Centennial REIT, Inc.	New York
Centennial Capital, Inc.	New York
Boomer Air, LLC	Arkansas
Centennial AAC NMTC Fund, LLC	Arkansas
Regent Bank Project Finance, Inc.	Florida
HBI Insurance, Inc.	Arkansas
Centennial (AR) Statutory Trust I	Delaware
Liberty (AR) Statutory Trust I	Delaware
Liberty (AR) Statutory Trust II	Delaware
Regent Capital Trust II	Delaware
Regent Capital Trust III	Delaware
Russellville Statutory Trust I	Delaware

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
Home BancShares, Inc.
Conway, Arkansas

We consent to the incorporation by reference in the registration statement of Home BancShares, Inc. on Forms S-8 (Nos. 333-136645, 333-148763, 333-188591, 333-211116, 333-226608 and 333-229805) and Form S-3 (No. 333-228611) of our reports dated February 26, 2021, on our audits of the consolidated financial statements of Home BancShares, Inc. as of December 31, 2020 and 2019, and for each of the years in the three-year period ended December 31, 2020, which is included in the Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 26, 2021, on our audit of the internal control over financial reporting of Home BancShares, Inc. as of December 31, 2020, which is included in the Annual Report on Form 10-K.

/s/ **BKD, LLP**

Little Rock, Arkansas
February 26, 2021

Exhibit 31.1

I, John W. Allison, certify that:

1. I have reviewed this annual report on Form 10-K of Home BancShares, Inc. for the period ended December 31, 2020;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   d) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2021

/s/ John W. Allison
John. W. Allison
Chief Executive Officer

Exhibit 31.2

I, Brian S. Davis, certify that:

1. I have reviewed this annual report on Form 10-K of Home BancShares, Inc. for the period ended December 31, 2020;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   d) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2021

/s/ Brian S. Davis
Brian S. Davis
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Annual Report of Home BancShares, Inc. (the Company) on Form 10-K for the period ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, John W. Allison, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 26, 2021

/s/ John W. Allison
John W. Allison
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Annual Report of Home BancShares, Inc. (the Company) on Form 10-K for the period ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Brian S. Davis, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 26, 2021

/s/ Brian S. Davis
Brian S. Davis
Chief Financial Officer